

Supply Bonds

Supply Bonds are an integral part of the contract bonding environment and are legally mandated for public works projects. These surety bonds guarantee that a materials supplier will provide supplies as specified by the contract. They also protect the purchaser in the event that the supplier defaults.

Federal law mandates the use of Supply Bonds for public projects with a value of \$100,000 and beyond. Most states have similar regulations. Supply Bonds are also often utilized for private development projects.

There are three types of supply bonds, each with its own purpose:

- Bid Bonds ensure that any bid for the job has been submitted in good faith and that supplies and labor can be provided at the quoted rates.
- Performance Bonds provide assurance that the contractor will perform the contract according to its terms and conditions and protects the owner from financial loss should there be a problem.
- Payment Bonds are in place to make sure that the main contractor on the job will pay any subcontractors for time and material spent on the job.

Contractors typically obtain Supply Bonds during the initial contracting phases, well before work has started. These are often less expensive than other types of contract bonds. But rates will ultimately depend on the underwriting process and the overall financial health and history of a given contractor

A surety company will try to determine whether the contractor can cover the face value of the bond should there be a claim against it. Supply Bonds are usually a bit easier to obtain than the standard construction bond and are slightly less expensive, but rates vary widely based on the size of the job and the contractor's financial status.



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