

About Contract Surety



A surety bond is a written agreement where one party, the surety, obligates itself to a second party, the obligee, to answer for the default of a third party, the principal.

Contract Surety Bonds provide financial security and construction assurance on building and construction projects by assuring the project owner (obligee) that the contractor (principal) is qualified to perform the work and will pay certain subcontractors, laborers, and material suppliers.

Contract surety bonds include:

- bid bonds, which provide financial assurance that the bid has been submitted in good faith, and that the contractor intends to enter into the contract at the price bid and provide the required performance and payment bonds.
- performance bonds, which protect the owner from financial loss should the contractor fail to perform the contract in accordance with its terms and conditions.
- payment bonds, which guarantee that the contractor will pay certain subcontractors, laborers, and material suppliers associated with the project.
- maintenance bonds, which normally guarantee against defective workmanship or materials for a specified period.
- subdivision bonds, which guarantee to a city, county, or state that the principal will finance and construct certain improvements such as street, sidewalks, curbs, gutters, sewer, and drainage system

How are surety bonds obtained?

Surety bonds are issued through surety bond producers, also known as agents and brokers, who are knowledgeable about the surety and construction industries. Surety bond producers usually work in agencies that specialize in surety bonds or in insurance agencies that have a sub-specialty in surety bonds.

The professional surety bond producer usually maintains a business relationship with several surety companies, which enables the producer to match a contractor with an appropriate surety company. A good surety company and surety bond producer will help a contractor maintain and increase its surety capacity. Names of producers specializing in surety bonds can be obtained from the **National Association of Surety Bond Producers (NASBP)**. NASBP members adhere to professional standards that demonstrate professionalism, expertise, and innovation in surety bonding.

NASBP is the international organization of professional surety bond producers and brokers. NASBP represents over 5,000 personnel who specialize in surety bonding, provide performance and payment bonds for the construction industry, and issue other types of surety

bonds for guaranteeing performance, such as license and permit bonds. NASBP's mission is to strengthen professionalism, expertise, and innovation in surety and to advocate its use worldwide.

What is a surety company?

Most large property and casualty insurance companies have surety departments. In addition, there are some companies for which surety bonds make up all or most of their business. In either case, in order for a company to write a surety bond in the United States, it must be licensed by the insurance department of one or more states. Although there are some exceptions, generally a surety company must be licensed by the state in which it is doing business or by the state where the obligation guaranteed by the bond is being performed.

Surety companies are represented by **The Surety & Fidelity Association of America** (SFAA), a District of Columbia non-profit corporation whose members are engaged in the business of suretyship. Member companies collectively write the majority of surety and fidelity bonds in the United States. SFAA is licensed as a rating or advisory organization in all states, as well as in the District of Columbia and Puerto Rico, and it has been designated by all state insurance departments except Texas as a statistical agent for the reporting of fidelity and surety experience. SFAA represents its member companies in matters of common interest before various federal, state and local government agencies.

Resources

- Visit the [FAQ](#) section for a list of answers to a number of frequently asked questions about contract surety bonds.
- View and download materials from the [Resource Download](#) section.
- Visit the dedicated areas of this site for pertinent information for the following groups:
 - [Contractors & Subcontractors](#)
 - [Public Project Owners](#)
 - [Private Owners & Bankers](#)
 - [Educators & Students](#)
 - [Design Professionals](#)
 - [Surety Professionals](#).