

# S,M,L,XL: SURETY FOR EVERY SIZE CONTRACTOR

By Marla McIntyre

**C**ontract surety bonds are the construction industry's most trusted and valuable risk-management tool, and bonds are readily available for qualified contractors in any size market.

## SMALL AND EMERGING CONTRACTOR MARKET (UNDER \$1 MILLION)

For the past year, the surety market for smaller contractors has not changed significantly. Sureties still impose stringent underwriting and may require collateral as well as corporate and personal indemnity. The good news is more surety companies are interested in writing bonds for small, emerging and middle-market contractors.

Smaller contractors who are more attractive to sureties have a bank line of credit; offer continuity of programs; demonstrate depth or longevity of management; and employ sophisticated systems like computer software, construction management and audited financial statements.

Surety executives expect continued improvement in surety capacity for small and emerging contractors thanks to improvements under way in the U.S. Small Business Administration's Surety Bond Guarantee Program and initiatives by the surety industry to educate emerging contractors on becoming "bondable."

## MIDDLE MARKET (APPROXIMATELY \$50 MILLION)

There is plenty of surety capacity for contractors with projects from \$10 million to \$100 million. While underwriting is not as stringent as with the small or emerging contractors, a surety company will still require the following, among other things:



- good references and reputation
- ability to meet current and future obligations
- experience matching the contract requirements
- necessary equipment to do the work or the ability to obtain it
- financial strength to support the desired work program
- excellent credit history
- an established bank relationship and line of credit

## LARGE MARKET (AROUND \$100 MILLION AND UP)

There are a number of surety companies licensed to write bonds in the \$100-plus million market. These sureties have the capacity to handle the work programs of contractors needing bonding capacity in this range, and underwriting terms and conditions are generally favorable.

Surety companies appear to be competing more intensely for financially strong contractors with work programs under \$250 million.

## MEGA MARKET (EXCEEDING \$250 MILLION)

The jumbo- or mega-contractor surety market is quite stable.

**ABOUT<sup>the</sup>  
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Although there are fewer sureties writing this market, the capacity is available. Underwriting in this segment is still disciplined, but the surety industry has demonstrated its willingness to provide 100 percent performance and 100 percent payment bonds for the right project in the range of \$600 million to \$700 million. In a few situations, reduced penalty bonds have been provided for very large projects, but there are other ways to provide full-contract-value penal sum bonds, too.

It's not unheard of to have a \$1 billion project, and there are more construction firms needing \$5 billion and \$10 billion work programs than ever before. With the right contractor and co-surety partners, a bonding program can be put together. Joint ventures and co-surety arrangements spread risk over a number of contractors and sureties, so the failure of one contractor does not put the entire project at risk.

#### LOOKING FORWARD

The surety industry is meeting the needs of the growing construction economy. Double-digit growth and strong profits have allowed sureties to reinvest in their businesses

to keep infrastructure up to speed with the demands of the construction market.

In this robust construction economy, contractors in most markets are operating at their peak backlog with a strong pipeline of future work. Meanwhile, projects are getting larger—as are overall work programs—because of public spending and inflation. However, there is not a corresponding increase in equity, so sureties are being asked to support larger bonds and work programs based on balance sheets that are not proportionately larger. Sureties are looking closely at contractors to confirm that they have the management capacity to handle larger jobs.

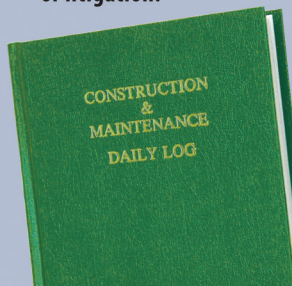
Surety executives' advice to contractors continues to focus on key financial metrics, organizational capabilities and the capacity to handle the significant opportunities available.

The danger in a growth market is overextension, as financial and organizational capacity and capabilities can become stretched too thin. Contractors should communicate closely with their surety bond producers and surety underwriters, and take their advice on how to manage these risks. ♦

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