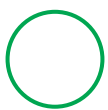


The Contractual Chain

What is a Contractual Chain?

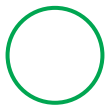
What do you call the collective group of parties on a construction project? (Sounds like the start of a fun dad-joke!) We often refer to the collective parties as the **contractual chain or the ladder of supply**.

Who is in the Contractual Chain?



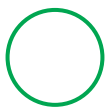
Project

The project is the location where new construction or an improvement to an existing building/property is taking place. **The project is where your materials and/or services will be incorporated.**



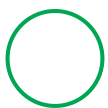
Lender

The party financing the new construction or improvement.



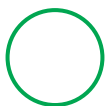
Owner

The project owner is the party who has an interest in the project and who contracts for the construction/improvement. **The owner, either of the real property or of a leasehold interest in the property, hires a general contractor.**



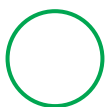
General Contractor (GC)

After entering into a contract with the owner, to carry out the work of improvement or new construction, the **general contractor** ("GC"), sometimes called the **prime contractor**, will likely hire one or more subcontractors and/or material suppliers.



1st Tier Subcontractor (Sub) or Material Supplier (MS)

A **first-tier** subcontractor is a party that **contracts directly with the GC** to do a portion of the work. A first-tier material supplier is one who contracts directly with the GC to provide only materials (no labor) to the project. Neither has privity of contract with the owner.



2nd Tier Subcontractor (Sub) or Material Supplier (MS)

Frequently, the first-tier subcontractor / material supplier will turn around and hire additional sub-subcontractors or material suppliers. These sub-subcontractors or material suppliers are also known as **second-tier** subs/suppliers.

Privity of Contract

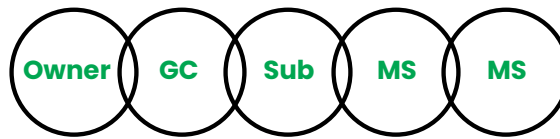
We often hear this phrase in mechanic's lien & bond claim statutes: **privity of contract is the legal relationship between two parties**. It may describe the relationship between the GC and owner or between the subcontractor/material supplier and the GC.

Think of "privity" as "direct" -- the subcontractor does not have a direct relationship with the project owner, the subcontractor's direct relationship is with the GC.

The Contractual Chain

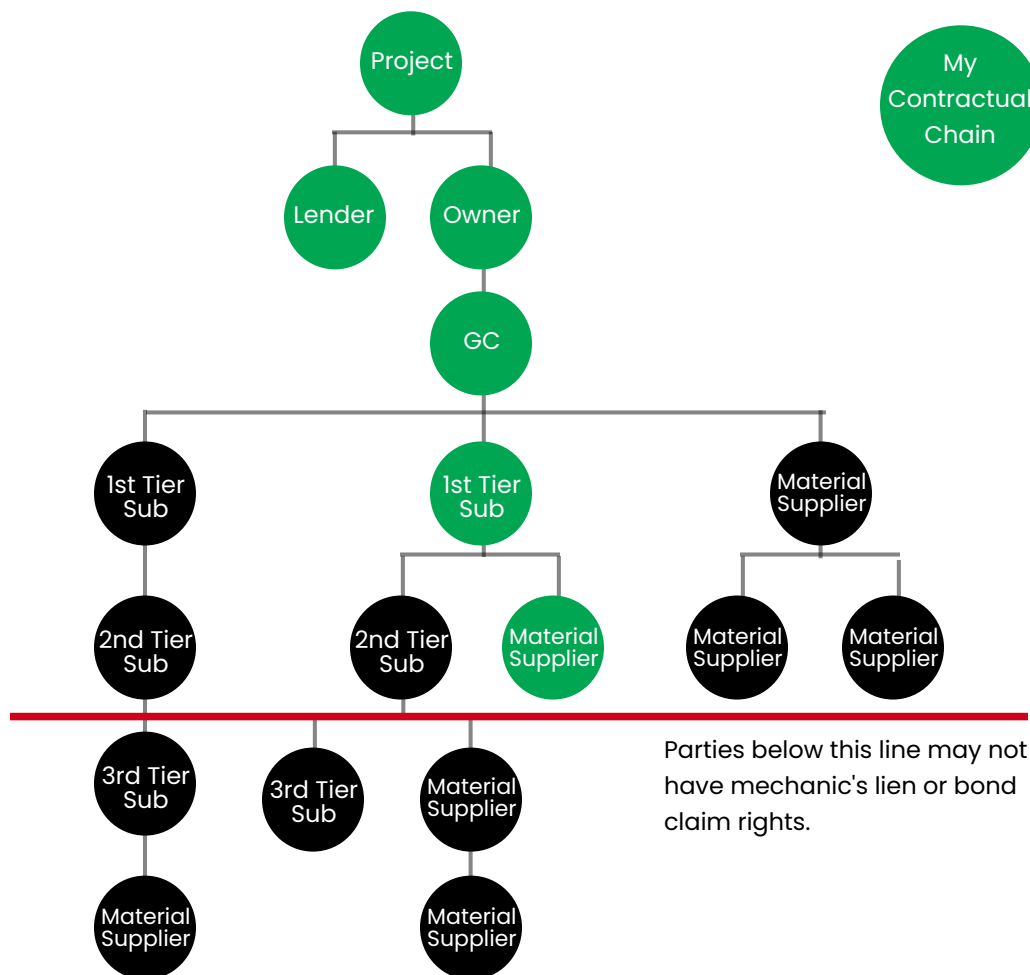
See the Chain

You may be starting to understand the "chain" portion of "contractual chain."



Average Construction Project

Seems simple enough, right? It's possible the contractual chain will be that simple. But, often, there are multiple contractual chains within one project. **It's important to identify the contractual chain specific to your contract.**



Who's Covered?

Unfortunately, not all parties' payment rights are protected under a mechanic's lien or bond claim. See, as the contractual chain grows, it is possible that parties will be too remote to be covered under the statute.

Although statutes vary by state, and every case is different, if you are a **material supplier furnishing to a material supplier, your mechanic's lien and bond claim rights may be questionable.** Additionally, based on state statute, rights may be limited when contracting with a lower-tier subcontractor.

As a best practice, serve a statutory notice, even when your rights may be questionable, as the statute is not always clear and the notice may help to prompt payment!