A Bond Breakdown

The construction credit world is full of industry-specific terms and definitions; sometimes it's hard to keep them all straight.

"Bond" is one of those terms.

Let's review some Common Bond Types in Construction Credit!

The *most common* type of bond in construction credit is the payment bond.

Payment Bond

A payment bond is a surety bond, particularly on public projects, issued as an assurance of payment to certain parties should the principal of the bond breach their construction contract.

BONUS: In Canada, a payment bond is often referred to as a *Labour and Material Payment Bond.*

Payment Bond Best Practices

- If there's a payment bond on the project, attempt to obtain a copy of the bond at the time of contract.
- Confirm the surety is on the Department of Treasury's Listing of Approved Sureties.
- Review the payment bond to ensure you are covered as a potential claimant.
- Serve applicable preliminary notices in accordance with statute.
- If you remain unpaid, serve a copy of the bond claim upon all parties.
- Keep all project documentation in a central location (i.e. invoices, delivery tickets, statement of account, etc.).

Payment and performance bonds are often issued together, but they guarantee different things: *payment bonds guarantee payment, performance bonds guarantee performance.*

Performance Bond

A performance bond is issued to one party of a contract as a guarantee of the performance of the other party to meet the obligations specified in the contract.

Prevention & Discharge Bonds

Prevention bonds prevent a lien from attaching to the property.

Discharge bonds remove a lien that has already attached to the property.

Although prevention bonds & discharge bonds are not the same, they share a common goal: *attach security to the bond rather than the property.*

Bid Bond

A bid bond is used during the bid process and is for the protection of the obligee. A bid bond guarantees the contractor will accept the award of a contract under the terms stated within their bid or the surety will compensate the obligee.

In some states, a bid bond converts to a payment bond. Ohio provides a form of bond that at first is just a bid bond. If the contract is awarded to the principal of that bond, the bid bond then transforms into a payment and performance bond. However, the bond only converts to a payment bond *once the contract has been awarded.*

Contractor's License Bond

This bond obligates the contractor to adhere to various rules/regulations and helps protect consumers and other businesses mitigate loss if issues such as fraud arise.

In some states, a contractor is required to obtain a bond before they can get a contractor's license.

According to the California Contractors State License Board, *"The bond or cashier's check is filed for the benefit of consumers who may be damaged because of defective construction or other violations of contractors' state license law, and for employees who have not been paid wages they are owed."*

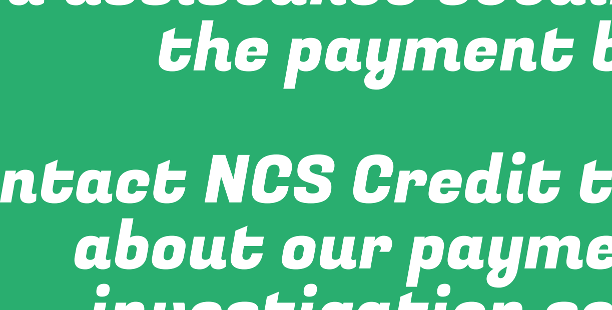
Parties to the Bond: Principal vs. Obligee

As the claimant, it's important to know "who are the parties to the bond?"

The *principal*, or *obligor*, is the party that has an obligation to pay the debt. In construction, we frequently see bonds where the General Contractor (GC) is the principal.

The *obligee* is the party the principal is bound unto or contracted with. Since we often see the GC as the obligor, that makes the project owner the obligee.

However, there are instances where the subcontractor is the principal and the GC is the obligee so be sure to *review the bond carefully!*



Need assistance obtaining a copy of the payment bond?

Contact NCS Credit to learn more about our payment bond investigation services!

NCS CREDIT

SecureYourTomorrow@NCScredit.com | NCScredit.com | 800.826.5256

Collection Services | UCC Services | Notice & Mechanic's Lien Services | Education & Resources