



THE COST OF SURETY BONDS

Everything You Wanted to Know



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The logo for Lance Surety Bond Associates, Inc. features a stylized white 'LS' monogram on the left, followed by a vertical line and the text 'LANCE SURETY' in a bold, sans-serif font. Below this, 'BOND ASSOCIATES, INC.' is written in a smaller, lighter font. The background of the logo area is dark blue with faint white lines suggesting a document or grid.

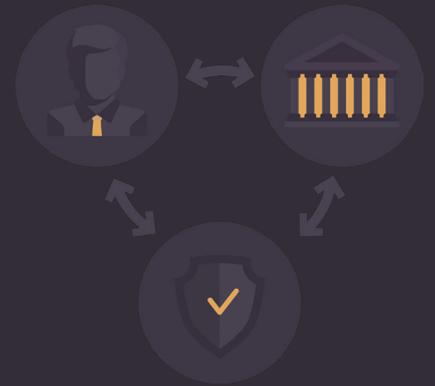
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INTRODUCTION



While surety bonds may not be as widely known as insurance, they are a risk transfer mechanism that is used in all venues of business and life. Whether you're a professional who needs a license, a contractor who wants to bid on projects, or a citizen who needs a court bond to appeal a case, you may be legally required to get bonded in numerous situations. In some cases, it may be useful to obtain a surety bond even if you don't have to, as being bonded is a strong sign of trustworthiness for your business.

How surety bonds work



[Surety bonds](#) are, in essence, a three-party contract. You or your business have to get a bond, which means you are the principal. An authority or another entity requires the bond from you, and this is the obligee. A surety provides the bond and backs you, and this is the third party.

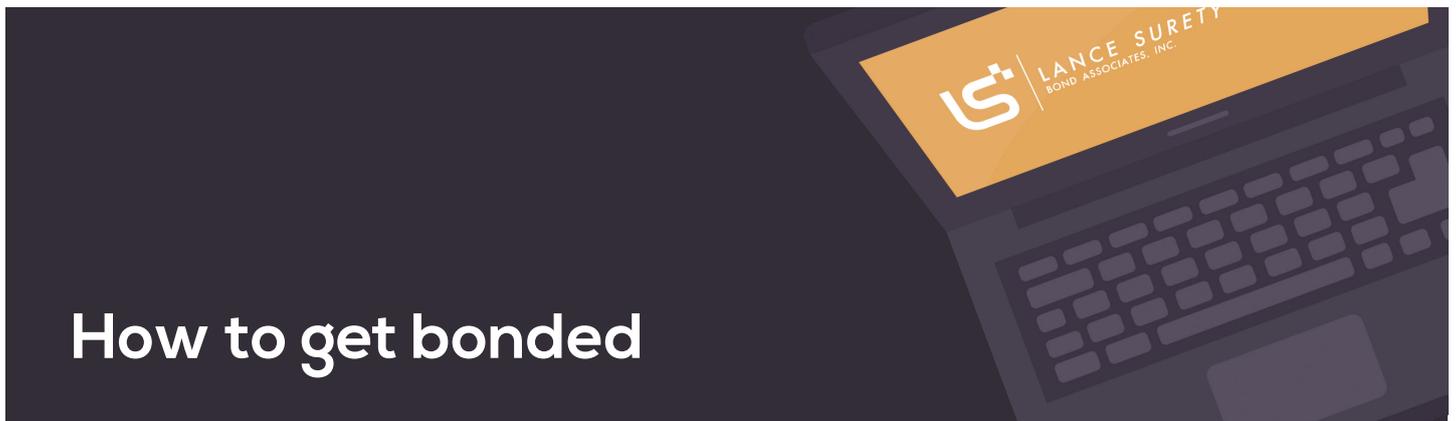
In return for the financial backing you receive, you most often have to pay a yearly premium to the bonding company. The premium represents a small percentage of the bond amount that you need to obtain. This is how you compensate the surety for the risk taken by extending the bond coverage to you. In a sense, a surety bond works like an extra credit line. The surety that backs you or your business provides a guarantee to the requiring entity about your future performance and work.

It's important to [differentiate between surety bonds and insurance](#). While insurance policies protect you or your business, the purpose of bonds is to safeguard the interests of the general public, your customers, and relevant government authorities. The surety bond works as a safety instrument because it provides an additional layer of guarantee for the obligee and by extension, to other potentially affected parties.

If a person or an entity suffers damages as a result of your non-compliance with legal and contractual obligations, they can make a claim against your bond. Then, the bond amount that you have posted turns into the maximum sum claimants

can seek as a reimbursement. It's important to understand that you, as a bonded principal, are liable to reimburse the surety for any claims that must pay out on your behalf.

What's the role of the surety then? It simply ensures that harmed parties receive a fast and fair compensation. Even though the surety may step in to pay the claim at first, ultimately, the costs are your financial responsibility. When you get bonded, you often have to sign an [indemnity agreement](#), which transfers all bonding risk to you rather than the surety. It is an additional document that supplements the bond itself, which sets the relationship between you and the bond provider.



How to get bonded

In order to obtain a surety bond, you have to apply with a bonding agency. Agencies operate as the intermediaries between surety bond companies, which financially back the bonds, and the public. When selecting your agency, it's a good idea to look for one that works with a number of surety companies. This ensures you will get access to a wide variety of bonding options.

It's also important to check the credentials of the surety companies, as it's best to get a bond from a duly licensed, A-rated and T-listed company.

First of all, the bond company has to be licensed to underwrite bonds in your state, as otherwise your surety bond would not be accepted by the authorities. It's a good idea to work with bond companies that have an A rating or better from A.M. Best Company, Inc. This ratings demonstrates their financial strength, plus some obligees will require an A-rated bond provider.

Last but not least, the surety company should preferably be included in the Department of Treasury's Listing of Approved Sureties. This allows it to provide

bonds for federal contracts and projects, and generally is a sign of trustworthiness.

In your bond application, you have to provide full information about yourself or your business entity. While smaller bonds can often be approved based solely on personal credit, some applicants may have to submit a range of financial and business documents as well. This is how the surety can assess the level of bonding risk that you pose.

**You can start your surety bond application
with a free bond quote today.**

START NOW

Read below for information on the different types of bonds and the factors that affect their cost.

LICENSE BOND COST



License bonds are one of the most commonly used types of surety bonds. They are also known as [license and permit bonds](#) or commercial bonds. As their name suggests, these kinds of bonds are a pre-licensing requirement for a wide variety of professionals across the U.S. Their purpose is to ensure that the bonded businesses will follow applicable federal, state or local rules and regulations.

License bonds are required by different authorities on any of these three levels. The bond amount that you have to obtain in order to license your company may vary depending on your location and type and size of business. Bonding requirements differ from state to state, so if you want to operate in more than one state, you will have to comply with various rules and the bond costs may be calculated differently.



The most common types of license bonds

There are hundreds of different license bonds, as they are required in many business fields. Here are some of the most frequently requested license bonds.

Freight broker bonds

are required from all freight brokers and agents in the U.S., as they have to undergo a licensing process on the federal level. The bond amount set by the Federal Motor Carrier Safety Administration is \$75,000.



Auto dealer bonds

are a licensing prerequisite for most car dealerships in the U.S. The bond amounts are set on state level by the relevant departments that regulate motor vehicles and their sales.



Mortgage broker bonds

are required of mortgage professionals in many states before they can operate legally. The licensing criteria are set by state authorities, but the process is conducted via the website of the Nationwide Multistate Licensing System & Registry (NMLS).



Contractor license bonds

may be needed if you want to start a contracting business. The requirement may be set on state or local level.



Besides these four kinds, some popular subcategories of license bonds include collection agency bonds, telemarketing bonds and seller of travel bonds. Collection agencies across the U.S. often need to get bonded in order to obtain their state licenses. The same rules typically apply for telephone solicitors, who may need to post a bond prior to starting their operations. Travel agents in a number of states are also required to get bonded, so that they obtain the legal right to sell travel packages.

Factors affecting license bond cost

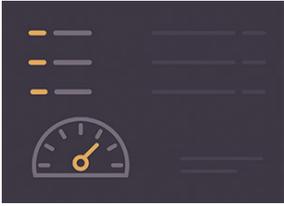
The **surety bond cost** that you have to pay is determined on the basis of the license bond amount that relevant authorities require from you. For example, if you have to post a \$25,000 auto dealer bond in Texas, your bond premium will be a percentage of this required amount. Naturally, the higher the bond amount you have to obtain, the higher the bond premium will be.

The premium is determined on the basis of a number of factors that a surety underwriter needs to examine. This assessment aims to measure the level of risk associated with bonding you. In this way, the surety tries to predict how likely it is that you will not be able to cover bond claim costs, if such a situation arises. As a rule, the lower the perceived risk, the lower the premium. Conversely, the greater the risk, the more expensive the bond costs will be. If the bond company feels the risk is too great, you may not be able to get approved at all.

Below are the most important factors that affect license bond cost.



Your **personal credit** score is probably the most significant criterion that is used in setting your bond premium. Credit is a key factor when applying for a loan, and the same counts for bonding too. The reason is that it illustrates your ability and willingness to cover debts and to meet your financial obligations. Your credit score can be assessed to represent about 40% of the weight in cost formation, together with your credit report. With excellent FICO score above 675, your annual bond premium is typically between 1% and 3% of the bond amount you need to post. For credit scores in the range of 600 to 675, the typical premiums are 3% to 5%. Bad credit bonding (FICO score below 599) is also possible, with premiums between 5% and 10%.



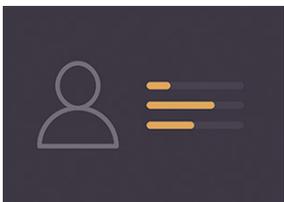
When it comes to your **credit report**, it's important to clean up any items that may damage it as soon as possible. Outstanding payments in your credit report, such as tax liens, unpaid civil judgments, child support or others, are likely to increase your bond price. Improving your report, on the other hand, can open up more bonding options for you. When you apply with a surety, it would usually refer to a credit reporting agency such as TransUnion, Experian and Equifax to check your report. Even though you have covered old payments, they may still be showing on these agencies' reports. That's why it may be a good idea to use a credit repair consultant to help you clean up your report prior to applying for surety bonds.



Business finances are also considered in the bond cost formulation. The surety you apply with may examine business financial statements to judge the level of financial responsibility and management style in your company. Typically, business finances contribute 30% to the bond cost decision. For larger bond requests, business financials are often weighted much more heavily.



The next important factor are your **personal finances**, which represent around 20% in the bond cost formation. If you can showcase any assets or liquidity, this can improve your overall profile and decrease the bond cost. Some items that you can showcase in your bond application include cash on hand, investments, assets such as real estate, and any other finances you have control over. Providing a personal financial statement to the surety can be a good way to demonstrate your financial strength in terms of your net worth. This statement is not always required, but may be needed when underwriting large bond amounts. The same applies to cash verification through bank statements. It may be required for large bond amounts or full bond lines.



Industry know-how can be a plus in bond cost formulation, presenting about 10% of weight in the decision. If you can demonstrate that you have solid professional experience in the respective field, this is seen as a positive factor in your overall bond application profile. It can be especially useful for new businesses that cannot demonstrate strength through financial statements yet. That's why it's worth including detailed resumes of the owner, and even of key managers. They can showcase that your company has proven specialists on board and thus increase the confidence in your future success.



Past bond claims can be a serious hurdle for getting bonded. They show to the surety that you have presented a financial risk to the surety provider before. This may prevent you from obtaining a bond, or can significantly increase the bond price.



If you do not have a **U.S. citizenship** but can obtain it prior to applying for surety bonds, this is certainly a good idea. U.S. citizens can be held responsible for claims in a much easier way, which decreases the bond cost, as the risk for sureties is lower.



Your **choice of bonding agency** can also affect your bond cost. If an agency works with numerous [surety bond companies](#), it will most likely have access to a larger variety of bonding options. This can make an agency more flexible and able to make you an appropriate offer that matches your specific circumstances.

Besides all the factors relating to your personal and business finances and background, the industry you're in may also affect the license bond cost. In some professions, such as telemarketing or mortgage brokering, the cases of bond claims are more prevalent than in other fields. This means that for a surety, the risk of providing bonds for these professionals is higher. Thus, it may conduct more rigorous assessment for such bond applicants.

License bond cost calculator

Would you like to get an estimation of your surety bond price? We've developed a surety bond cost calculator that allows you to obtain a ballpark estimate of annual premium without having to actually apply.

[GET AN ESTIMATE](#)

The background is a dark charcoal grey. In the upper left, a hammer is shown in a dark grey silhouette, angled downwards. In the upper right, a pencil is shown in a dark grey silhouette, angled upwards. In the lower left, a yellow hard hat is shown in a stylized, rounded form with three vertical lines on its front. The text 'CONTRACT BOND COST' is centered in the middle of the page in a large, bold, white, sans-serif font.

CONTRACT BOND COST

Another category of surety bonds are known as **contract bonds**. They are typically required in situations when a construction specialist would like to participate in public projects. For example, if you want to participate in a federal construction project above \$100,000, you need to post contract bonds. Many state projects also require them. They may be needed for some private contracts as well.

The bond amounts that you have to post are determined on a case-by-case basis. For public projects, they are often based on full contract amount. The overarching goal of contract bonds is to guarantee that a contractor will complete all work agreed in a project contract in a timely manner and according to set quality standards.



The most common contract bonds

Bid bonds

are often required when contractors submit bids for participation in publicly funded projects. This type of contract bonds guarantee that if you win the project, you will adhere to the conditions defined in the bid, including the price. It's also typically an assurance that you will obtain performance and payment bonds as a part of the requirements for the project execution.



Performance bonds

are a security mechanism for construction project owners. More specifically, they are always needed for state projects and federal projects above \$100,000. When you post a performance bond, it guarantees you as the main contractor will complete the work agreed as set out in the contract. It ensures a financial compensation or a replacement contractor in case you default on the project, or fail to complete it according to the defined standards and conditions.



Payment bonds

are a protection instrument for contractors' suppliers, laborers and subcontractors. Under the Miller Act, they also cover second-tier subcontractors, and suppliers and laborers who work with a first-tier subcontractor. Payment bonds are required for state construction contracts, as well as federal projects above \$100,000. They ensure you will make all due payments for labor and supplies.



Maintenance bonds

are also referred to as warranty bonds. They function as a guarantee for the quality of the work you've executed on state and federal construction projects. In some cases, private project owners may also require them. Maintenance bonds are issued for a certain time frame after the completion of a contract and ensure proper maintenance and compensation in case there are cases of defects.



Additional types of contract bonds include supply bonds, site improvement bonds and subdivision bonds.

Supply bonds may be required of construction project suppliers to guarantee their compliance with contractual obligations.

Site improvement bonds are sometimes imposed by state or local bodies from entities who are conducting private projects that may affect public property.

Finally, subdivision bonds may be required by local authorities from construction specialists to ensure that obligatory improvements are made to a public property.



Contract bond cost factors

The cost of contract bonds can vary substantially depending on a number of factors relating to the construction project that you'd like to participate in. The ones with the biggest significance are:

- **the size of the contract**
- **the type of work you would be completing**
- **the state where work is being conducted**

Similarly to license bonds, other important factors that affect the cost of contract bonds are your personal credit score and the financial strength of your business. Previous successful construction projects that you have completed in a timely manner and according to contracts' agreements are certainly a positive sign for your surety.

They are a powerful proof that you can adhere to your legal obligations, which is a demonstration that your company has the capacity to execute similar projects. This means that default on previous work, financial or practical problems, or other

such issues are likely to negatively impact your bond premium.

Your personal credit will almost always be reviewed when underwriting a contract bond. For smaller bond amounts, credit can be the most heavily weighted factor when determining approval and rates. For larger bond amounts, however, you would need to provide your business financial statements as well. As with other bonds, strong financials can help you get the best possible rate for the bond you need.

Typically, for public projects bond amounts for bid, performance and payment bonds are equal to the total dollar value of the contract. Contract bond premiums for larger bond amounts (more than \$500,000) are likely to be around 1% to 1.5%, while smaller contract bonds would get rates around 3%. If you have to obtain a \$100,000 performance bond, for example, your bond premium may be as low as \$3,000.

Unlike license and permit bonds, for contract bonds you usually don't need to undergo a renewal process. This means you need to pay a bond premium only once, as they are needed solely for the specific project at hand.



COURT BOND COST



Another large category of surety bonds are [court bonds](#). This is a blanket term that includes a number of bond types that a court may require from individuals or companies. Their main goal is to guarantee in front of the respective court that you or your business is trustworthy and can demonstrate financial stability. Each court bond's amount is set on the basis of the specific situation and the rules of the relevant court authority.



Popular types of court bonds

Fiduciary bonds (probate bonds)

include Veterans Affairs fiduciary bonds, guardianship bonds, and estate bonds, among others. Probate courts typically require such bonds from individuals who have to take care of another person's finances, property or affairs. Fiduciary bonds aim to guarantee the legal compliance of the appointed representative of a person who is a minor, deceased, disabled or unable to handle their own affairs. The bond can be used to obtain a financial reimbursement if the fiduciary abuses their position, or in any way harms the interests of the person they are representing. In the case of Veterans Affairs bonds, they guarantee that fiduciaries acting in the name of veterans will follow their legal obligations, so that the interests of veterans are protected.



Appeal bonds (supersedeas bonds)

are the second major type of court bonds. They are typically needed when you want to appeal a court case with whose decision you don't agree to a higher court. The appeal bond guarantees that in case your appeal is not successful, you will adhere to the initial court decision and will make all relevant payments. In this way, these bonds ensure that plaintiffs do not misuse the legal system to evade financial responsibility.



Factors affecting court bond cost

The factors that affect the cost of the two main types of court bonds are different.

In the case of fiduciary bonds, the main criterion which your surety considers when assessing your application is your personal credit score. The typical bond premiums are in the range of 1% to 3%. For bonds in larger amounts, the rate can be as low as 0.5%-1% if your credit situation is stable.

For example, if you are approved at a rate of 1% for a \$100,000 estate bond, you'll pay just \$1,000 for your bond. If you are applying for a \$500,000 bond, and get approved a 0.5% rate, you'll be required to pay a premium of \$2,500.

Smaller amounts of fiduciary bonds can be underwritten based primarily on your personal credit. Larger probate bonds (more than \$100,000), however, may require a review of your personal financial statement.

If your credit score is low, you may not be able to obtain a fiduciary bond. Bad credit options may be available in some cases, but it's rather difficult to get such a bond with problematic finances.

As for appeal bonds, the credit score is not the determining factor in the bond formation. They are considered high-risk bonds, as the outcome of an appeal is a court's decision, which can be difficult to predict. The bond premium cost typically ranges between 1% to 2% of the bond amount, and they often require posting 100% collateral for the entire bond amount. The underwriting requirements are less stringent for appeal bonds as they are for many other bonds, primarily because the collateral helps reduce risk faced by the bond companies.



FIDELITY BOND COST

Fidelity bonds are, in fact, closer in nature to insurance. They do not work in the way most surety bonds do. As already mentioned, bonds do not typically protect you or your business. Instead, they provide a safety net for relevant authorities or the general public.

In the case of fidelity bonds, however, the bond functions as insurance for your company. Their goal is to protect you from potential illegal actions undertaken by your employees that affect your business or your customers. These can include embezzlement, fraud, theft, burglary and any other unlawful practices.

Fidelity bonds are, in the general case, cheaper to obtain than the rest of bonds.



Common fidelity bond types

Employee dishonesty bonds

can protect you in case your employees engage in fraudulent activities that cause damages to your business. The bond can be a blanket one, or for specific employees. Typically, such bonds are required of employees who handle finances.



Business services bonds

are a good idea if your company provides services that are executed on customers' premises. They protect against theft and other illegal activities that harm their property. Such bonds are often required of employees who visit customers' offices and homes, or public institutions.



ERISA bonds

are a special category of fidelity bonds that need special attention. They were created with the Employee Retirement Income Security Act (ERISA) of 1974 and are required of people who manage employee benefit plans such as pensions. ERISA bonds protect the beneficiaries of such plans against potential fraud and misuse by the managers.



Factors affecting fidelity bond cost

When determining the bond premiums for employee dishonesty bonds and business services bonds, the factors that affect the costs are the following:

- **The bond amount you want to obtain**
- **The type of business you have**

- **The number of employees who work for you**
- **The security measures you have enforced against employee dishonesty**

The bond amounts for business services bonds usually are between \$10,000 and \$25,000 for businesses that serve private individuals, between \$25,000 and \$50,000 for serving business customers, as well as for serving institutions such as hospitals, banks, and government authorities.

In the case of ERISA bonds, the bond amounts that you need to obtain are based on the funds you are going to handle as a benefits plan manager. If you work with qualifying assets, the bond amount is equal to 10% of the funds. In case you're handling plans that contain non-qualifying assets, the bond has to be the greater sum of either 10% of the funds, or the value of the assets. On the basis of this required amount, the bond premium you will have to cover is a small percentage.

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CONCLUSION



The total cost of a surety is largely dependent on the type of bond you have to obtain. When formulating the price, bond underwriters assess the risk associated with a particular applicant by reviewing financial data such as personal credit and financial statements. Bond costs are set as a percentage of the required bond amount, so in most instances the larger the bond amount, the higher the cost.

The better you understand the factors that are used to determine your bond premium, the more prepared you can be to decrease your bonding costs. By understanding what influences these costs, you can focus effort towards improving the factors that matter most and thus lower your bond premium.

ABOUT LANCE SURETY BONDS



About the author:

Victor Lance is the founder and president of Lance Surety Bond Associates, Inc. He began his career as an officer in the U.S. Marine Corps, serving two combat tours. As president of Lance Surety, he now focuses on educating and assisting small businesses throughout the country with various license and bond requirements.



Lance Surety Bonds offers surety bonds for all types of applicants across the U.S. Whether you need a license bond to start your business, a contract bond to bid on a construction project, or a court bond, we can get you bonded at top rates. Our ability to offer you great bonding options comes from our close partnerships with a number of trusted A-rated and T-listed surety bond companies.

Call us today at 877-514-5146 for any questions you might have regarding your bonding needs and application.

If you are ready to start your bond application, you can obtain a free quote through the button just below. We'll gladly provide you with the surety bond you need!

Get a FREE quote today!

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