



Why surety bonds are an important consideration for your small business

Getting the proper insurance coverage and licenses is just the start. To run a successful business, you'll also likely need to obtain the appropriate surety bonds. Surety bond requirements can be imposed by cities, counties, states, or the federal government. They can also be included in any formal contract between two parties and are especially common with contractors. For these reasons, it's impossible to say definitively which businesses will need surety bonds as requirements vary across municipalities. However, if you plan to open one of these business types, there's a strong likelihood you'll need to obtain a surety bond:

- Contractors
- Health club
- Investment advisor
- Mortgage broker
- Pest control provider
- Driving school or other private school
- Waste hauler
- Motor vehicle dealer
- Alcohol manufacturer, distributor, and retailer
- Personal service providers such as hair salons
- Notary publics

Keep in mind that this isn't a comprehensive list and that requirements vary from state to state.

How to determine surety bond requirements

If your business needs a surety bond, it'll probably be a requirement for obtaining a business or professional license. Review your license requirements carefully to see if you need a surety bond to meet obligations for a new business. In the event your business needs to obtain a contract bond, the requirement should clearly be spelled out within the contract agreement. If you need help making sense of your surety bond requirements, reach out to your independent insurance agent and they'll be happy to see you through the process.

What's a surety bond?

A surety bond is a promise to be liable for the debt, default, or failure of another. It's a three-party contract by which one party (the surety) guarantees the performance or obligations of a second party (the principal) to a third party (the obligee).

Surety bonds that are written for construction projects are called contract surety bonds. Commercial surety bonds on the other hand provide guarantees that cover a very wide range of obligations as outlined in the bond form. They're required of individuals and businesses by federal, state, and local governments; various statutes, regulations, and ordinances; or by other entities. Commercial surety bonds can generally be divided into five types:

- 1. License and Permit Bonds** – Required by federal, state, or local governments as a condition for obtaining a license or permit for various occupations and professions. License and permit bonds include auto dealer bonds, mortgage broker bonds, contractor license bonds, and surplus lines broker bonds.

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- 2. Court Bonds (also called judicial bonds)** – Required of a plaintiff or defendant in judicial proceedings to reserve the rights of the opposing litigant or other interested parties. Court bonds include appeal bonds, supersedeas bonds, attachment bonds, and injunction bonds.
- 3. Fiduciary Bonds (also called probate bonds)** – Required of those who administer a trust under court supervision. Typical such bonds are executor and administrator bonds, trustee bonds, guardian bonds, and conservator bonds.
- 4. Public Official Bonds** – Required by statute for certain holders of public office to protect the public from malfeasance by an official or from an official's failure to faithfully perform duties. Public official bonds include county clerk bonds, tax collector bonds, notary bonds, and treasurer bonds.
- 5. Miscellaneous Bonds** – These are commercial surety bonds that don't fit into any of the types above. Included are a wide variety of bonds, such as warehouse bonds, title bonds, utility bonds, and fuel tax bonds.

How to obtain bonds for your business

Our specialists can help determine what bonds you need, what underwriting information will be required, and how much they'll cost. Underwriting requirements vary depending upon the risk associated with the type of bond you're seeking. Not all bond types require a review of your credit and financial background. The premium for the bond is always a percentage of the bond amount, and one big benefit of obtaining a surety bond is that you can avoid the need to post alternative security, which typically requires a deposit in the full amount of the bond.

While obtaining a bond may seem complex, it's important to understand which bonds are required of you, what they accomplish, and you can best obtain them. By doing so, you'll ensure that your business complies with all state and federal laws, is properly licensed, and can ultimately attract customers.

Why work with West Bend?

We're a comprehensive partner for business insurance and bonds. Since 1971, West Bend has maintained an A rating (excellent) or better by AM Best. We've developed a streamlined approach to underwriting and our knowledgeable and well-tenured staff is always standing by to assist with questions regarding bond needs. You'll also find our rates to be very competitive with all major industry players.