Commercial Surety Bonds

Frequently asked questions

1. What is a bond?

A surety bond is a three-party agreement between the Applicant (the Principal), Obligee (the party requesting the bond) and the Surety company. The Surety guarantees the applicant's performance and financial obligation to the Obligee.

2. What is the difference between a surety bond and insurance?

While a surety bond and insurance are both a contractual agreement, there are many differences. A surety bond involves three parties, whereas and insurance policy only requires two.

A surety bond provides a guarantee to an Obligee that the applicant will abide by the terms of the written contractual agreement, while an insurance contract agrees to pay the policy holder in the event of a list of specific types of accidents.

3. What is the difference between the Principal and the Obligee?

The Principal is the applicant for the bonded obligation and the Obligee is the party that would be indemnified in the event of a default.

4. Who benefits from the surety bond?

The Obligee is the beneficiary under the bond. The bond is typically legally required and necessary for consumer protection.

5. Is there a general surety bond that covers everything?

No, bonds respond to specific obligations and laws.

6. What are the types of Commercial Surety Bonds?

There are many. The most common are:

- License & Permit Bonds
- Customs & Excise Bonds
- Estate Bonds
- Lost Instrument Bonds

7. How do I know what type of bond is needed?

The Obligee will advise the Applicant.

8. What is the cost of the bond?

The Surety charges a service fee for the pre-qualification of the Applicant. The bond is cost effective and usually less expensive than a Letter of Credit.

9. How are premiums calculated?

Premiums are based on the bond amount, subject to minimum premiums which are fully earned.

10. How long does a bond remain in effect?

Typically, bonds are in effect for the duration of the Applicant's obligation.

11. Can a bond be cancelled?

Most bonds may be cancelled by the Surety. Some types of bonds, such as estate bonds, cannot be cancelled.

12. Can the Applicant get a refund of the bond premium?

Refunds are based on a pro-rata basis; however minimum premiums are fully earned.

13. Is tax applicable to commercial surety bonds?

No.

14. Who is responsible for payment of the premium under the bond?

The Applicant is responsible.

15. What is an Indemnity Agreement?

A legal and binding contract between the Applicant (Principal) and the Surety. The Applicant and Indemnitor(s) guarantees to reimburse the Surety (should the Surety have to indemnify the Obligee) as well as provide payment for the bond premium.

16. How do I request a bond?

The Surety requires a bond application and will evaluate the Applicant's financial position, character and capacity.

17. What are the benefits of a surety bond vs. other forms of security?

Other forms of security (such as letters of credit) tie up the Applicant's money. Surety bonds do not, and therefore can be more cost effective for the Applicant.

18. What is the turnaround time in getting a bond?

Three days is the typically the turnaround time; however, this is dependent on the type of bond and on whether the surety has all the underwriting information required.