

Tips for Maximizing Your Bondability Part 1

People frequently ask "How do I get bonded." To provide some basic advice about the things that you can control, we offer the following:

Keep Personal Credit Clean

One variable evaluated by bond underwriters is the personal credit history of the owners of the business. Keep your personal credit clean if you want to perform bonded work. This will allow you to obtain competitive bond rates with the most favorable terms for the approval of your bonds. Even if you have had credit problems, it is important to make **AT LEAST** the minimum payments on your open balances **ON TIME, ALL THE TIME**. The more steady, consistent progress you make on this front, the sooner your credit score will improve. Your bond conditions will likewise improve.

Engage Experts to Act on Your Behalf

It may be easy to hire your expert resources through friends and relatives. It is far more important for a construction business to have experts in the construction field as advisors including:

CPA, Banker, Attorney, Bond agent, Insurance agent

You may know and trust your cousin or neighbor well. If they are not an expert in construction your business foundation will lack key resources to guide your company to a successful future. Your CPA and bond agent are two of your most important advisors. A construction expert CPA will balance your need to grow your business with tax planning and other strategies. Your bond agent brings years of experience with the key success and failure determinants in the construction field and will help you navigate around these obstacles to maximizing bondability throughout your company's life cycle.

Hire a **BOND AGENT** rather than an insurance agent who is able to also write bonds. Bond agents have specific experience in the bond industry and are experts in the field than insurance agents. For that reason, bond agents do not handle insurance. They specialize in bonds and the underwriting issues involved with bonds. Bonding is too big an industry to specialize in both. Ask for your bond agent's resume to understand where they gained their experience.

If I may be of any assistance in helping you with these issues or other matters, please contact me.



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Tips for Maximizing Your Bondability Part 2

Obtain a Bank Line of Credit

Even if you have a modest sized business or personal line of credit, use this tool to enhance your bondability to sureties and specialty programs. The sooner you can develop a line of credit, the better you can leverage your attractiveness as a credit risk. Consider a Home equity Line of Credit (HELOC).

Establish a Strong Accounting System

Most new contracting businesses are founded by technical experts in construction who want to work for themselves. These strong technicians often do not have much experience in bookkeeping or accounting and other general business operation skills. The MOST IMPORTANT foundation for a successful contracting business is a strong cost and accounting system. It is pivotal for the owner of a business to have high quality information built on a useful foundation. In no other business are cost details more important than construction. When a trade gets delayed or an owner or GC accelerates a schedule, the cost impact of those changes hits everyone on the job. One's ability to know how those changes will impact the company determines the outcome of the job, and the success or failure of the company itself.

Instead of simply buying basic, inexpensive accounting software, hire an outsourced bookkeeper and engage a construction expert CPA firm **WHEN YOU START YOUR BUSINESS**. The CPA and bookkeeper can establish your accounting records to afford you the best system for tracking costs. Once the business is up and running, use the bookkeeper on a monthly or quarterly basis to ensure that you take the steps to keep your annual accounting costs down.



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Tips for Maximizing Your Bondability Part 3

Communicate With Your Bond Agent

Bond companies do not like surprises. One of the best means of establishing and growing your bond program lies in the steady flow of information to your bond agent. An experienced bond agent knows how to listen to your updates, analyze the impact on your business, and convert that to a message that the bond company will understand. If you are planning to purchase real estate, or invest in equipment that will drain your business cash balances or personal resources, let your CPA and bond agent know **BEFORE** you make the purchase. They can help you with the best strategies to keep bonding available.

As soon as you have information that could impact your bond program, let your bond agent know. The changes may require a new bond company or a new approach to your existing relationship. The more time your bond agent has to manage the process, the better the potential outcome.

Establish a Quarterly Report

Provide a management report with your financial updates. Provide management's feedback about what is going on behind the scenes. Provide a brief summary of the following key areas:

1. **Ongoing work** – What is happening on your open work? What is the outlook for the backlog you have? Show a 90 day forecast of billings on open work.
2. **Financial** – How are the year to date financial results, the status of large underbillings or old accounts receivable? Are tax distributions needed to come out of the business? Did you take on any new debt?
3. **Staffing/Equipment Allocation** - Any significant personnel changes? Have you or will you purchase new equipment? Is equipment operating at a high level of utilization or sitting idle?
4. **Legal/Claims Updates** – Do you have any open lawsuits or claims against the bond companies/GC's/owners for work performed and unpaid at this time?
5. **Market Conditions/Outlook** – Opportunities and Challenges – What is going on in your local market(s)? What is your competition doing? What is going on with subs and suppliers? Are you considering new territories or types of work?



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Tips for Maximizing Your Bondability Part 4

Best Practices

Learn from others, mentors, advisors as listed above and use the feedback to constantly update your processes, internal controls and operations management. Establish best practices as found in the industry for estimating and project management to ensure that you have the best information available when going into a project and then to manage that information as the project progresses to completion.

Constantly improving and keeping open to ideas that can help your business will put you on a path to success. Build great resources and use them!

Here are some industry resources to get you started:

How to Obtain Surety Bonds – Published by the Surety Information Office

http://suretyinfo.org/?wpfb_dl=57

Surety Companies: What They Are & How to Find Out About Them – Published by the Surety Information Office

http://suretyinfo.org/?wpfb_dl=71

The Importance of Surety Bonds in Construction – Published by the Surety Information Office

http://suretyinfo.org/?wpfb_dl=149

Contractors & Subcontractors Resource Downloads – Published by the Surety Information Office

http://suretyinfo.org/?page_id=336



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