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Procuring Developer-oriented Surety Bonds

By Scott McGilvray, Account Executive

At a recent construction industry event, a developer asked me why surety bonds have become so much harder for him to procure than in the past. The bonds he was referring to are bonds for things such as erosion control, storm water & drainage, grading & clearing, wetlands mitigation, landscaping and right of way, among others. He knew that reputation, work history and financial position all influenced qualification for surety bonds. But beyond qualifying one's character, capacity and capital – three key components used in the surety qualification process – perhaps the biggest X factor is the number of surety markets willing to entertain developer-oriented surety.

We all know what happened to the housing market in 2008. A lot of people got hurt; sureties took their lumps too. When the dust settled, many of the markets that wrote developer-oriented bonds were on the hook for substantial losses, which ultimately resulted in many of those sureties declining to do these kinds of bonds except on an incidental basis. Today, nearly six years later, we are still seeing the negative effects of that fallout. Only a small handful of surety markets are willing to comprehensively entertain developer-oriented surety; and those that do entertain these kinds of bonds are conservative in their underwriting.

If you need, or think you'll need to secure developer-oriented surety bonds, there are few things you must do. Make sure you have your financing relationship in place; provide a detailed timeline of what bonds are needed and when you'll need them; and most importantly, make sure you have a knowledgeable and experienced surety broker.

How do you ensure you have the right surety broker? You can start by asking the broker two critical questions: Do you have other clients for whom you regularly secure developer-oriented bonds? And, how many sureties do you represent who will write those obligations? At Parker, Smith & Feek, we regularly provide these kinds of bonds and represent all the sureties who will write them. For more information on how we can help, contact your Parker, Smith & Feek representative.

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