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Who Benefits from Release of Retainage Bonds?

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Between supply chain issues, labor shortages, cybersecurity threats, and economic uncertainty, contractors today must navigate an increasingly complex business environment. In this landscape of heightened uncertainty, contractors are continuously exploring additional methods to mitigate their risks. However, owners are operating in the same environment and looking for greater certainty themselves. A release of retainage bond can provide that for both contractors and owners.

A release of retainage bond is provided by a contractor to an owner or another contractor upstream, allowing the release of the retainage to the party who earned it but retaining the full guarantee that those funds will be available. The hassle for the owner in monitoring and managing retainage funds is avoided without losing any protection. The force and effect of retainage from the owner's perspective remain fully intact.

By providing a retainage bond to the project owner, contractors can receive their retainage through normal progress payments instead of waiting to close out the project. This is a clear advantage for the contractor who has full use of earned contract proceeds to complete the project as prescribed in the contract. For prime contractors and subcontractors alike, the benefit of having increased cash flow far outweighs the nominal premium for these bonds (typically 1% of the retention amount).

While the benefits for contractors are clear, the benefits for owners are also substantial but perhaps not as apparent. Though an owner gives up the perceived advantage of holding back payment, which many have traditionally felt gave them leverage, the bond is equally effective in protecting the owner's interest. However, it also gives them an advantage. That advantage is more difficult to quantify but no less powerful.

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When retention withheld on a project represents all a contractor's profit and probably more, a contractor must factor in how they will cash flow that project. Front-loading costs is certainly a possibility, but the potential for the contractor to effectively finance the project, depending on payment terms, becomes a real issue. A contractor must necessarily increase their pricing to offset this risk. This leads to higher costs for the owner as contractors price the risk for working with that owner. By accepting a release of retainage bond, owners will attract more bidders and receive more competitive pricing. In an environment where everyone is looking for any advantage, this is one an owner can achieve with zero cost to themselves. In fact, accepting a retainage bond and ensuring the bidders know it can become a competitive advantage for that owner.

The success of project owners and contractors should never be mutually exclusive. Long-term partnerships flourish when all parties treat each other favorably, and a release of retainage bond is just another tool that owners and contractors can use to help each other mitigate risks and ensure that the project has the highest chance of success.

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