TEN MOST COMMON QUESTIONS REGARDING COMPLIANCE BONDS

1. *Is it legal for a community to pass a law REQUIRING contractors to be bonded?*

   Yes. Any community which licenses contractors or people of special trades can and should require bonds which compel compliance with local codes and standards. Public policy is meant to serve and protect the constituents of any given community—bonds help do just that.

2. *Why are compliance bonds necessary for a community like mine?*

   Compliance bonds compel compliance with the ordinances, regulations and standards set by the community. Bonds offer protection to consumers and government bodies by making sure the contractor follows the rules. If, for some reason, those standards are not met, the bonding company sees to it that the problem gets resolved promptly and fairly.

3. *Why do we need compliance bonds if we already have liability insurance?*

   Some contractors like to argue that since they have insurance the bond is unnecessary. What they neglect to say is the liability insurance they carry is there to protect them; only a bond will protect the consumer. For instance, we just recently paid a claim on a contractor's bond where the contractor had various code violations on a driveway. The contractor skipped town and could not be located. We paid over $2,600 to the consumer. If only liability insurance were required, the consumer would have been without any recovery because a direct claim by a consumer cannot be made on the contractor's liability insurance policy. That is why it is important to have a solid compliance bond in place for contractors. All the liability insurance in the world is not going to help the consumer if a contractor skips town. One other point to consider is the fact that insurance does not cover criminal acts while a bond will.

4. *Doesn't a bond requirement make it difficult for the little guy to stay in business?*

   Compliance bonds are designed to offer maximum protection for the public at a minimal cost to the contractor. In most instances, this will only cost the contractor $50 or $100 per year. This is hardly a burdensome amount for the contractor to pay to ensure public protection. Unlike insurance, compliance bonds are based on the premise that once a bond is issued, problems are not likely to occur because the

bond acts as a "stamp of approval," verifying that the contractor will properly comply with any and all standards set forth by that community. Therefore, we keep the "bad apples" out and keep the cost down for the contractors who deserve to be in business.

5. *Won't requiring a bond create more paperwork for the community and the building inspector?*

   No, not in the long run. Bonds are readily available, and most companies have very efficient means of issuing bonds to the contractor. The contractor contacts his local independent insurance agent, and the bond is often written right out of the agent's office. Then, the contractor shows proof of bond and obtains a license from the city or county where the work will be done. If the work does not meet code, the wronged consumer or the city can make direct claim to the surety. At Western Surety Company, we have claims experts who handle all the paperwork and correspondence to guarantee claims are paid properly and quickly. Without a bond in place, city officials could find themselves under a pile of paperwork or, worse yet, legal fees.

6. *Is $10,000 a large enough bond to cover the possible errors of our licensed professionals?*

   We recommend that compliance bonds have a penalty amount between $5,000 and $10,000. This offers ample protection to consumers for most losses which may occur and avoids artificially limiting the market entry to contractors

7. *If we require a bond, won't we make ourselves liable for the errors of our licensed professionals?*

   No. On the contrary, by requiring a bond you alleviate yourself of the potential hassle and cost that can occur when jobs don't get done properly. If city property is damaged or code standards are not met, the bond pays so you don't have to. If the public suffers, they can make direct claim to the surety. Bonding licensed professionals also helps prevent problems by weeding out the "bad apples" and promoting credibility to those who deserve to be in business.

8. *Why should local government get involved in a problem between a consumer and a licensed professional?*

   A government's fundamental responsibility is to provide order and protection to its constituents. Bonds prevent problems from the start by screening applicants for

licensure and making sure they qualify for the jobs to be performed. Compliance bonds also ensure that local fees and taxes are paid promptly. If a loss does occur, the consumer or the local government can make direct claim to the surety, thus saving time and legal fees. It is the government's job to set up proper laws, and the surety company handles the specifics from there.

9. *Won't this end up costing the community or the public money?*

Neither pay and both stand to gain. The contractor buys the bond from a local independent insurance agent. Unlike insurance, the cost of the bond is nominal for the amount of coverage offered. Administering a bond program is as simple as enacting an ordinance and informing licensees they need a bond. The public gets protection at no cost to them.

10. *What professionals should be bonded?*

Virtually every business or profession that deals with the public is a potential candidate for compliance bonding. If your municipality requires licenses or permits, it should require bond protection as well. If there is no licensing program in place, Western Surety Company can help you establish a license and permit bond program that fits your needs.