

Performance Bonds

Performance Surety Bonds For Construction Project Contracts

Information On Getting Performance Surety Bonds For Construction Projects

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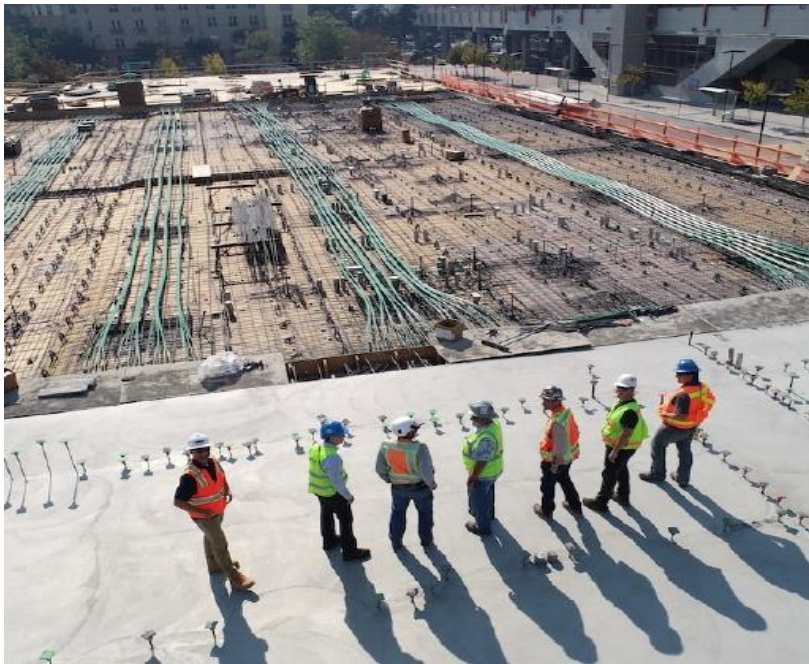
Performance Bonds Introduction

A [performance surety bond](#) is a type of insurance that protects the property owner or developer in the event that the contractor fails to complete the work as specified in the contract.

In other words, the bond is like a guarantee that the contractor will perform the required construction work.

There are a few things to keep in mind when considering a performance surety bond for your construction project. First, you need to make sure that the bond is properly written and that it covers all of the risks associated with the project. Second, you need to make sure that the bond is for the right amount of money. And third, you need to make sure that the bond is from a reputable company.

In this article, we will cover everything you need to know about getting performance surety bonds for your construction projects. We will discuss the benefits of having a bond, the different types of bonds available, and how to choose the right bond for your project.



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What Is A Performance Bond?

A performance bond is an insurance policy that guarantees that a contractor will fulfill the terms of the contract. This type of bond is common in the construction industry, as it provides a degree of security and financial protection for both the contractor and the property owner.

[Performance bonds](#) are purchased by contractors and typically cover the project up to a certain percentage of the contract amount. The contractor is responsible for purchasing the bond, but the property owner is responsible for ensuring that the contractor obtains the bond and that it meets the necessary requirements.

Performance bonds are different from other types of bonds in that they guarantee the completion of the project. As such, if the contractor defaults on the construction project, the property owner will be able to recover the cost of the job from the insurance company. The bond amount depends on the size and scope of the project, as well as the contractor's creditworthiness.

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How Performance Bonds Work

Performance bonds work in three stages for the construction industry:

1. **Prior to Beginning the Construction Project:** Before the contractor and property owner enter a contract, the contractor is expected to obtain a performance bond. This is so that both parties can be sure that the contractor will be financially obligated to complete the project as described in the contract.
2. **During the Construction Project:** During the course of the construction project, the contractor is expected to secure continuous updates on the bond, as well as constructing the project in accordance with the contract and any applicable government regulations and building codes.
3. **After the Construction Project:** After the construction project has been completed, the contractor will submit the bond to the property owner and obtain payment for all costs associated with the construction. The property owner will be able to collect on the bond if the contractor does not fulfill the contract obligations and begins to operate irregularly.



Who Needs To Get Performance Bonds?

Performance bonds are mostly used in the construction industry. Anyone involved in the construction process, including contractors, subcontractors, developers, and property owners, needs to get a performance bond.

These bonds are typically needed for large construction projects with a total value of more than \$500,000. It is often mandatory for construction projects that involve government contracts. The performance bond provides an additional layer of protection for both, the contractor and the property owner, in the event the contractor fails to meet its obligations.

Performance bonds can also be necessary as a condition of a bank loan or an increase in capacity related to a construction project. Banks and other lenders may require a performance bond to protect their investments when it comes to the construction industry.

Property owners who are looking to protect themselves from potential losses due to the contractor not fulfilling his obligations should consider getting a performance bond as well.



Performance Bonds Cost

- Performance bonds typically cost a certain percentage of the total project cost.
- The exact percentage can vary between states
- Generally, the cost of the bond is 1% to 15% of the total project cost.
- The exact cost is usually based on the contractor's credit score and financial history.
- The bond must be purchased before the project begins.

There can also be other costs associated with setting up the performance bond, including filing fees, attorney fees, and underwriter fees. All these costs and fees should be factored in when understanding the cost of a performance bond.

The cost of a performance bond is generally a worthwhile investment, since it provides both the contractor and property owner with added protection in the event of any issues or disputes. It's always advisable to do proper research when selecting an insurance company and on the terms included in the bond.

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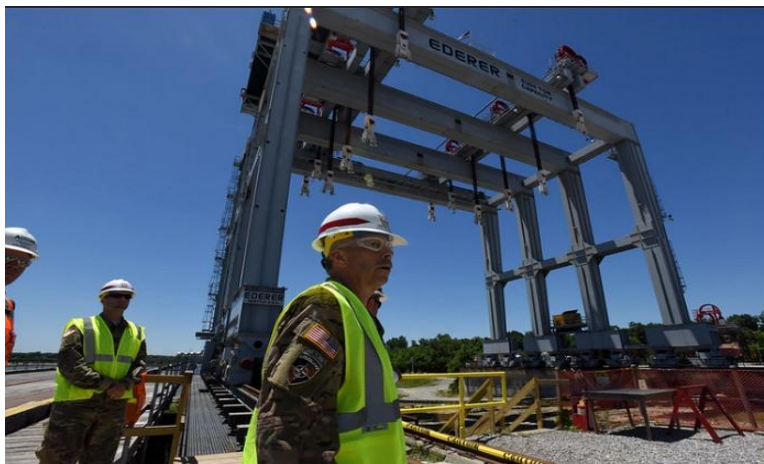


How To Get A Performance Bond

Getting a [performance bond](#) is a fairly straightforward process. You will need to contact a surety bond company or an insurance agency that specializes in performance bonds. The bond company will likely ask the contractor for a variety of documents in order to evaluate their performance bond risk, including financial statements and other relevant documents.

After the bond company has completed its evaluation, they will determine the cost of the bond, which is usually a percentage of the total project cost. The bond company will then provide a performance bond for the project.

It's also important to note that the performance bond needs to be in place before the project starts. This is why it's important to budget for the cost of the bond and not wait until the last minute to obtain one.



Performance Bonds Information Conclusion

Getting performance surety bonds for your construction projects is important to ensure the project's completion. The surety or the bonding company provides the contractor with assurance that they can complete the project according to the agreed-upon terms, including the cost and timeline.

Obtaining the surety bond is a straightforward process, and the bond company will need to assess the contractor's risk before setting the cost of the bond. Getting the bond in place before the project starts is essential to ensure the project progresses on schedule.

Performance surety bonds are a critical part of the construction process and obtaining one for your project will ensure peace of mind for all stakeholders involved.



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