BONDS FACT SHEET

ABOUT BONDS

A surety bond, put simply, is a guarantee that a contract will be fulfilled.

- *There are many types of bond but it is usually a tripartite contract whereby a Surety or guarantor agrees to pay one party (the beneficiary) a predetermined amount if a second party (the principal) fails to meet some obligations under a contract. The Surety bond protects the beneficiary against losses resulting from the principal's failure to meet these contractual obligations.*
- *A false misconception about surety bonds is that they are a form of insurance. Surety bonds are instead a form of credit whereby principals are required to provide payment for claims.*
- *The main benefit for the principal is that they are not usually required to provide collateral which frees up capital. This makes surety bonds more attractive than alternatives such as posting cash or obtaining a letter of credit.*
- *Where a bank provides a guarantee, this amount is deducted from the principal's overall bank facilities – i.e. it reduces their overdraft or other borrowings proportionately. Where a Surety is used the bank facilities are unaffected which can provide valuable headroom in banking facilities and working capital.*
- *The most common reason for a bond being called is the insolvency of the principal.*
- *The Surety has recourse under common law to the principal if the bond is called by the beneficiary. To make the process easier a corporate counter guarantee between the Surety and the principal is put in place before bond is issued.*
- *Sureties do not usually require personal guarantees from the Directors or Shareholders.*
- *Most Companies that import will be required by HMRC to provide a Duty Deferment bank guarantee or Bond in order to pay duty on a monthly account.*
- *After the failure of Carillion, the use of bonds has significantly increased and many contractors and sub-contractors will be required to provide a Performance Bond either from a Bank or a Surety.*
- *Where a bank provides a performance bond it is usually "on demand" whereas a Surety bond is mainly subject to a breach of the construction contract. This can prevent unfair calling of the bond which can seriously affect your client's cash flow.*

WORKING WITH TYSERS

We can arrange:

CONSTRUCTION BONDS
Performance Bonds
Retentions Bonds
Maintenance Bonds

GOVT OR LOCAL AUTHORITY
Road Bonds
Sewer Bonds

HMRC/RPA
Duty deferment
RPA
Movement
Warehouse

We can arrange annual facilities for Contractors which make issuing bonds much quicker and easier to put in place and give Contractors peace of mind when tendering. The accounts and MI only need to be provided annually so once a facility is in place we just need contract details and the bond wording to provide an indication. The facility is updated by the Surety on a regular basis.