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How to Prepare your Construction Company for the Next Recession





Recession Looming

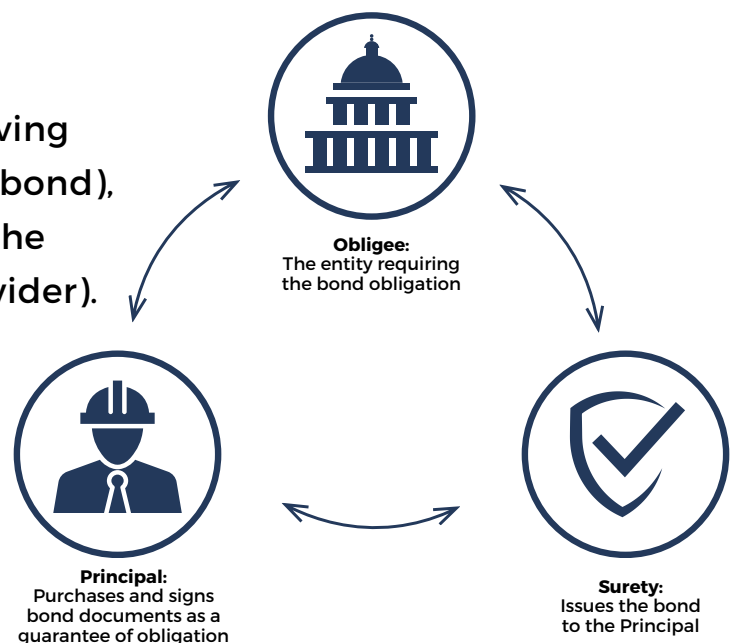
Introduction

Nearly 2.5 million layoffs occurred, and around 150,000 construction companies went out of business during the Great Recession in December 2007 to June 2009. With rising interest rates, high inflation, and many experts indicating that there is another recession around the corner, it is more important than ever to recession-proof your construction business so you can not only withstand the impacts of a declining economy but flourish during this period. One of the most proven ways to do this is by obtaining a surety bond capacity and start bidding on public projects at both the local, state, and federal levels.

Not only are there many opportunities for contractors to obtain bonded projects today, but historically, the federal government has implemented infrastructure bills to stimulate the economy. For example, the American Recovery and Reinvestment Act of 2009 and the Bipartisan Infrastructure Bill of 2021, which aimed to promote economic growth during and after the coronavirus pandemic as the bi-partisan infrastructure bill is still ongoing contractors with a bonding capacity are still reaping the benefits bill and will for years to follow.

How A Surety Bond Works

A surety bond is a contract involving the principal (party needing the bond), the obligee (party protected by the bond), and the surety (bond provider). It ensures the principal's fulfillment of obligations, with the surety covering financial losses for the obligee if the principal fails, up to the bond amount.





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Benefits Of Obtaining A Surety Bond Capacity

- ▶ **Access to Contracts/Enhances Bid Opportunities:** Obtaining surety bond capacity allows businesses to bid on and secure contracts that require bonding. Many public and private projects, especially in the construction and government sectors, mandate contractors to provide performance and payment bonds. Having surety bond capacity enables a business to participate in a broader range of projects.
- ▶ **Contractor Credibility:** Surety bonds serve as a financial guarantee that a contractor will fulfill its contractual obligations. By obtaining surety bond capacity, a contractor demonstrates financial stability and reliability, which can enhance its credibility in the eyes of project owners and future clients.
- ▶ **Access to Larger Projects:** Surety bond capacity allows contractors to take on larger and more complex projects that may have higher bonding requirements. This expands the scope of potential projects a contractor can pursue and compete for.

How Do I Get Started?

The most essential piece of getting set up with a surety bond capacity is finding an experienced surety agent who will help you obtain your surety wants and needs by evaluating your current financial standing, establishing a good relationship with a surety company, and assist in planning your surety future.



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Frequently Asked Questions

▶ **What are the costs associated with obtaining a surety bond capacity?**

Fortunately, there are not any financial costs associated with setting up a bonding capacity with a surety company. However, once you start winning bids, you will have to pay a fee to the surety company you are set up with. (The fee is typically a small percentage of the bid you have won)

▶ **How will a surety company decide how much I can be bonded for?**

In short, a surety company will assess different aspects of your company, such as financial strength, creditworthiness, and industry experience, to determine how much you will be bonded for. Typically, surety companies will give you both a single project limit and an aggregate amount you can not exceed.

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Conclusion

In summary, obtaining surety bond capacity is an essential strategy for any construction business looking to get ahead of their competition. Surety bonds not only grant access to new contracts but also enhance credibility, allowing participation in larger projects. In today's everchanging world, it is more important than ever to protect yourself and plan for the future.





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About Professional Insurors

Professional Insurors has a distinct and rich history that starts in 1977. Over the course of 45 years, our philosophy continues to remain the same: concentrate on specialized areas and bring excellent service and products to our clients. Our employees are our most important asset, and we have an employee first culture where they have a career path and look to future opportunities and personal growth.



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