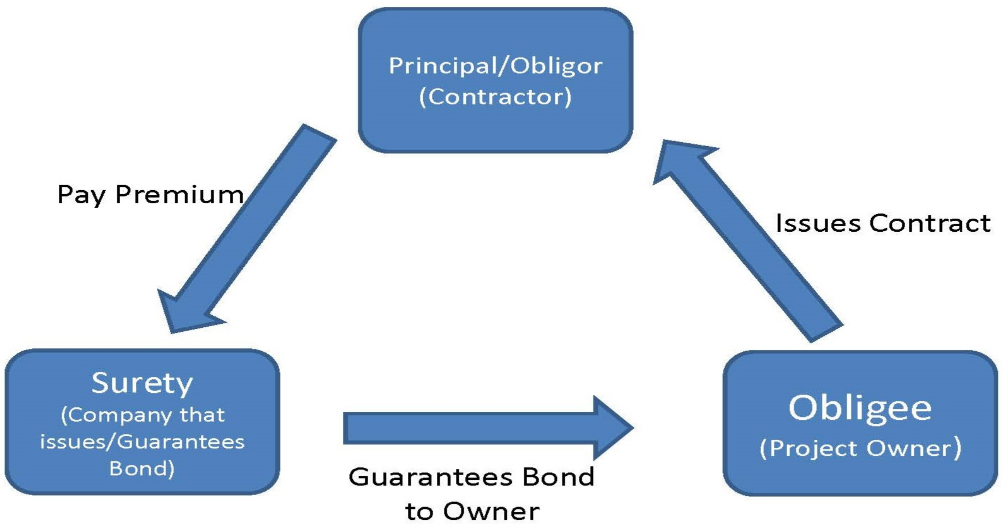
SURETY BONDS

A Surety Bond is simply an agreement between three parties: Principal, Surety and Obligee.

Three parties involved in a surety guarantee:

1. **PRINCIPAL**: Person required to post bond.
2. **OBLIGEE**: Government entity or person requiring principal to be bonded.
3. **SURETY**: Provides financial guarantee to obligee on behalf of principal.



In general, Surety Bonds are not designed to protect your business, but rather to protect the public from dishonest business practices.

A Surety Bond a three-way agreement between You (the Principal), the Obligee (typically, a government department) and the Surety Bond Company which ensures that the bonded Principal will comply with all the rules and regulations. There are 4 main types of Surety Bonds:

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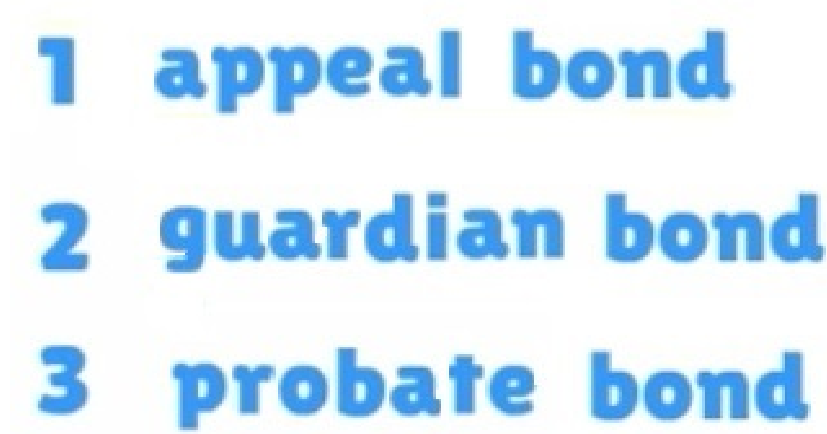
All types of Bonds are not exactly the same.

Contract Bonds are sometimes referred to as construction bonds and designed to guarantee the performance of obligations under a contract. In other words, Contract Bonds protect the project owner (the Obligee) by guaranteeing that the contractor will perform in accordance with the terms of the contract. There are several types of Contract Bonds:

License & Permit Bonds can be required either by the federal government, the state or the municipality. It is a prerequisite to receive a license or permit to engage in certain business activity. There are number of license and permit bonds, such as Auto Dealer Bonds, Contractor License Bonds, Freight Broker Bonds, Mortgage Broker Bonds any many more. For example, Auto Dealer Bonds are required by State Department of Motor Vehicles and every state has their own bond requirements.

Court Bonds guarantee that the fiduciary (trustee) will fulfill his or her responsibilities as ordered by the law or the court. There are a few types of Court Bonds:



Fidelity Bonds, also referred to as Fidelity Bond Insurance, will protect you and your clients from any employee dishonesty, such as theft, embezzlement or forgery. You can think of Fidelity Bonds more as a traditional insurance policy than a typical Surety Bond.

SURETY BONDS

What does a surety bond guarantee?

For license & permit bonds, they guarantee that a principal understands and follows the regulations outlined for their specific license. This is where the term "license & bonded" comes from. Examples of a license violation could include fraud, misrepresentation, or late payment. If a covered violations causes a claim against the bond that the principal is unable to resolve, the surety will be required to pay the claim to the obligee.

In the construction industry, surety bonds typically ensure that a bonded contractor will fulfill their obligations specified in a signed contract. If a bonded contractor defaults on the contract, the surety guarantees that the obligee will be made whole. This can include either a financial payout or taking other actions to make sure the work is completed per the terms of the contract.

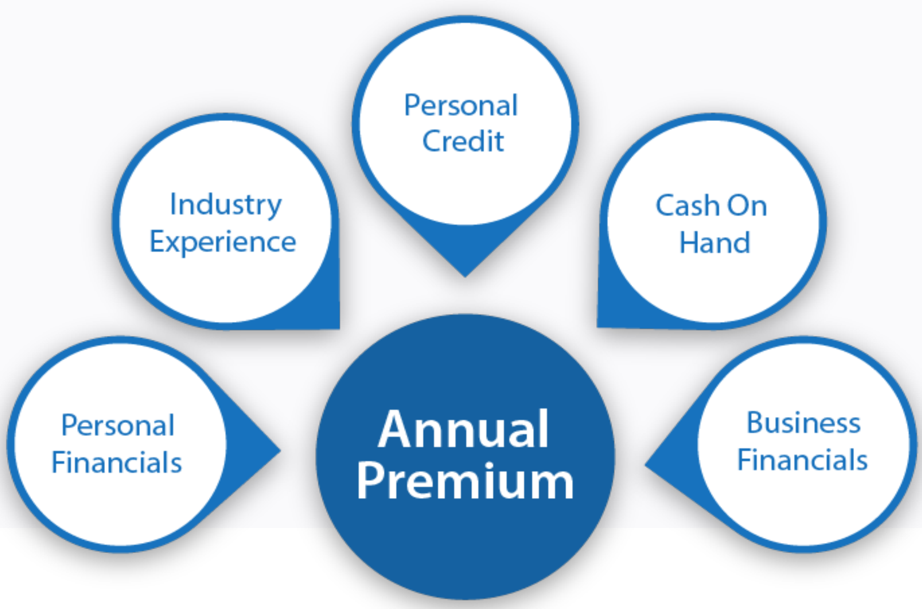
What happens if a claim is paid by the surety?

As a bonded principal, you must take every action possible to avoid claims. Claim activity may happen in the process of conducting business, whether valid or invalid, but it is ultimately the responsibility of the principal to make sure the disputes are resolved prior to the surety paying out on a claim.

Before becoming bonded, you will be required to sign a indemnity agreement with the surety company where you must agree to pay the surety back if they have to pay a claim due a violation by your company. The surety is only extending you credit, and therefore will expect to be reimbursed if a valid claim is paid. Having a paid surety claim may make it very difficult for you to become bonded again in the future, as it is a standard question on all bond applications, and is usually a cause for declination.

How are bond prices determined?

Most types of license bonds are underwritten based solely on the owner's personal credit score. However, credit doesn't always paint the entire picture. The following information can help determine what a surety bond costs:



SURETY BONDS

Surety bond underwriting

As you can see, bond quotes aren't randomly offered based on subjective reasons. Surety companies establish specific underwriting guidelines for different bond types in each state. These guidelines demonstrate their risk tolerance based on historical data gathered on past losses from claim activity.

As for-profit businesses, surety companies obviously do not want to bond someone likely to cause a financial loss for their company. Over time, bonding companies have found a direct relationship between a business owner's personal credit and paid bond claims. Credit is an indication of a person's ability to pay their debt on time, or an inability to do so. This does not mean that someone with bad credit cannot get approved for a bond, however, the price they pay may be higher than for someone with stellar credit.

Standard Market Rates ➡ 1 – 3%

High Risk Market Rates ➡ 4 – 15%

For Example

How much does a $10,000 bond cost?

Standard Market Rates: $100 to $300 per year.
Non-Standard Rates: $400 to $1,500 per year.

How much does a $50,000 bond cost?

Standard Market Rates: $500 to $1500 per year.
Non-Standard Rates: $2,000 to $7,500 per year.

What is considered "bad credit"?

In the surety industry, a FICO score of below 650 is considered bad credit, or non-standard. If you have a solid FICO score (650+), but have adverse public records on your credit report, such as unpaid tax liens or civil judgments, your application may be considered "high risk" as well.

How do I get bonded with bad credit?

First apply for one. After the application is approved, your agent will let you know how much your bond premium costs and give you a contract with a bonding company. Once you pay your premium and sign the contract, you will receive your bond. The only difference between getting bonded with bad credit and stellar credit is the price you are quoted at will tend to be higher.

What will my bond cost if I have bad credit?

When you purchase a surety bond, you pay an annual premium, which is a percentage of the bond amount. Typical premium rates for customers with poor credit can range from 5-15% of the bond amount.

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If I have bad credit, how can I lower my rate?

It is possible to lower your surety bond rate by providing additional information. For example, if you have strong liquid assets and can provide cash verification, that could be used to strengthen your application. Strong business and personal financial statements can also be considered in determining your rate.

If my credit improves, will my renewal rate be lowered?

Yes, a higher credit score can certainly help to lower your renewal rate. However, a better score does not guarantee a lower rate. In addition to FICO score, renewal premiums will also depend on collections and public records on your credit report, and updated surety underwriting guidelines for your specific bond type.

Can I get bonded if I have an open Bankruptcy?

Unfortunately, most surety companies cannot bond customers with open bankruptcies. However, once a bankruptcy has been discharged you should be able to get approved. The further in the past your bankruptcy was discharged, the better your chances will be at getting a lower rate.

Freight Broker Bonds

How much does a Freight Broker Bond cost?

Annual premium for the $75,000 BMC-84 Bond currently range between $1,300 and $9,000. Rates are determined based on owner personal credit and time in business. A company's financial strength can also be taken into consideration.

Can I get a BMC-84 Bond if I have bad credit?

Yes. While many sureties only offer quotes to customers with stellar credit, some specialty programs allow to approve over 99% of applicants instantly through our online application. Your annual premium will depend on your individual credit profile.

Do I need a Motor Carrier (MC) Number before applying?

No. You can apply for this bond before being assigned an MC Number. However, the surety company will need an active MC Number in order to properly file your bond with the FMCSA.

How are BMC-84 Bonds filed?

Freight Broker Bonds are electronically filed with the FMCSA, so you don't have to worry about additional paperwork. Once the FMCSA approves your bond, you will be provided with the electronic filing confirmation, and within 24 hours will be able to view your active bond coverage on the FMCSA website.

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What should I do if there is a claim against my BMC-84 Bond?

Bond claims must be taken very seriously, as having a paid claim on your record may not only affect your ability to be bonded now, but also in the future as well.

If you are made aware of a claim there are a few actions you can take. Contact your bond agent right away so they are kept in the loop. If a claim was already placed against the bond, chances are your bond agent will be able to provide you with important information regarding what the claim was for and who place it. Next, contact the claimant right away to see if the issue can be resolved on your level without further incident. In most cases, claims are a result of poor communication with shippers and motor carriers regarding payment. Once the issue is resolved, provide documentation to your bond agent and the surety, and you should be all set.

If my credit improves, will my renewal rate be lowered?

Yes, a higher credit score can certainly help to lower your renewal rate. However, a better score does not guarantee a lower rate. In addition to FICO score, renewal premiums will also depend on collections and public records on your credit report, and updated surety underwriting guidelines for your specific bond type.

What is the Household Goods Broker Bond?

Since early 2012, the FMCSA has required all Brokers of Household Goods to post a $25,000 BMC-84 Bond. Brokers that arrange the transportation of household goods in interstate or foreign commerce must furnish a new bond or arrange to have their current BMC-84 Bond increased.