about what rate to offer you on this information. To improve your credit score, ...

Aug. 08, 2016

The business owner's ultimate guide to cutting down their surety bond costs

(Source: https://www.flickr.com/photos/cafecredit/26700613813)

A great majority of businesses require a surety bond in order to obtain their professional license. Contractors, too, often need bonds before they can perform work. Yet, the cost of obtaining a bond can be a hurdle, especially to new businesses or to businesses that are recovering from financial difficulties.

Surety bond cost can vary greatly, and even if last year you had to pay a higher premium this may not be the case at all this year. There is a number factors that influence bond cost and all of these can be worked with. By improving certain aspects of your financial and professional profile, you can reduce bond cost a great deal and pay a smaller premium every time you obtain a new bond or renew your old one.

Read on below to find out more about how you can reduce your surety bond cost.

What Determines Surety Bond Cost?

There are at least six factors that directly determine the rate which your surety bond company will offer you on your bond. These are:

- Personal credit score
- Financial statements
- Liquid assets
- Industry and professional experience
- Citizenship status

- Your choice of surety bond agency

Read on below about how improving on each of these factors can influence your bond premium and get you increasingly better rates!

1. Improve Your Personal Credit Score

Personal credit score says a lot to a surety about how you manage your finances and how reliable and financially stable you are. A surety will strongly base their decision about what rate to offer you on this information. To improve your credit score, you need to understand what affects it.

Things you can do to improve your score include:

- Paying off debt instead of shifting it around
- Taking care of outstanding payments such as civil judgments, collections, taxes and more
- Paying down your credit card balances and keeping them at least 30% under their limit
- Entirely eliminating some credit card balances and minimizing the amount of cards you are using
- Leaving old debt and good accounts on your report – old debt, which you have successfully paid off, is good debt and shows you can handle your obligations
- Paying your bills and obligations on time and above the minimum payment amount

In addition to the above, you may want to have a look at your credit report once per year and check if there are any inaccuracies that need to be addressed. If you spot anything that has been resolved but is still present in your report, contact the credit bureau and provide them with proof of the changes you are claiming. Request an updated report afterwards to make sure that the issue has been resolved.

2. Submit Proper Financial Statements

Consider the format of your statements, as well as all the information you are including. If you are in doubt or have trouble taking care of this by yourself, you can work with a Certified Public Accountant (CPA) to help you brush up your statements. Working with a CPA also leaves a positive impression and sureties respond favorably when someone goes that extra mile.

3. Increase Your Liquidity

Your liquidity (your working capital, or your assets minus your liabilities) is also an indicator of your financial capacity and strength. A high liquidity ratio, but not necessarily too high, shows the surety that you have outstanding capacity after you have taken care of liabilities. This in turn signals that you are more likely to handle a claim well.

Therefore, improving your asset profile and showcasing it to the surety can have a beneficial effect on the cost of your bond. For example, if you have a home, you may want to notify the surety, because a home means that a bank has also vetted you previously and approved you.

To improve your liquidity, you may want to collect any uncollected debts before applying for a bond. Additionally, another way to improve your working capital is by refinancing short-term loans into long-term ones, effectively turning them into long-term debt, which on the other hand opens up more working capital.

4. Showcase Your Industry Experience

The longer you have worked in a particular market and industry, the more reliable and trustworthy you are considered to be. By demonstrating your previous experience, you can show the surety how you have handled business so far. It's also a great way to leave a good impression, particularly if you are starting a new business

that may be, and some markets may even exclude non-U.S. citizens from obtaining a bond at all. This makes good sense to sureties though, because it is harder to deal with a claim that concerns a non-U.S. citizen.

If you are not a U.S. citizen, applying for a U.S. citizenship, if possible, immediately influences your bond rate in a positive way. Basically, any steps you take in the direction of securing some form of legal U.S. status will signal to the surety that you have more ties to the country and will make it easier for them to bond you at a favorable rate.

6. Choose Your Surety Bond Agency Wisely

All surety bond agencies have access to different markets, depending on the surety bond companies they work with. Bond companies can vary in terms of the quality of the bonds they provide and how reliable these bonds are.

Companies that are A-rated and above, according to the A.M. Best Rating typically are among the most reliable companies in the country. Such companies have access to exclusive markets and are sure to back a bond if a claim occurs.

Additionally, companies that are T-listed with the U.S. Department of Treasury (DoT) have been approved to write bonds for federal government contracts. This means they have undergone great scrutiny and have been tested carefully before being approved.

To obtain a bond from one of these A-rated and T-listed companies, you need to work with the right surety bond agency, because bonding companies rarely work directly with the public.

More Ways to Improve Your Bond Cost?

Tell us about your experience applying for a surety bond. Did you manage to reduce

Benefits • Small Business