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**Joint Statement of The Surety Association of America  
and the National Association of Surety Bond Producers:**

**The Surety Industry – Vital to American Business**

January 30, 2002, Washington, D.C.-- Surety bonds have been in the press recently, and many people are wondering just what they are and why they are so important to American business. Surety bonds have been a vital part of business in America for more than 100 years. The role of surety bonds is to reduce or eliminate uncertainty in a variety of business transactions. For example, the majority of surety bonds are written for construction of our nation's infrastructure, which accounts for 10% of the Gross Domestic Product. In 2000, nearly \$175 billion in public works projects were under construction in the United States with surety bonds providing qualified contractors and protection against contractor failure. Surety is vital to public construction, saving taxpayer dollars and spurring economic activity. The capability of the surety industry continues to be there to meet the challenges and needs of American business. But just what are those needs?

Surety bonds assist businesses by securing the performance of obligations, not merely on construction projects, but also on other responsibilities, such as paying compensation benefits to injured workers. As businesses rely on surety bonds, they can be certain that sureties will be there to meet their needs with capital behind the promise.

A surety bond is a three-party agreement - the surety company guarantees to a third party that the principal will perform. To obtain a surety bond, principals undergo a rigorous pre-qualification process, called underwriting, to determine whether they are capable of performing. Whether backing a construction project or an employer's responsibility to pay injured workers, the surety underwrites these obligations if it is convinced the principal can meet its obligations. Types of bonds include:

- contract surety, which protects owners against contractor default on construction projects; and
- commercial surety, which protects against someone failing to fulfill a contract or obligation, such as worker's compensation self-insurer bonds, license and permit bonds, public official bonds, judicial bonds in civil proceedings, and fiduciary court bonds.

These bonds are vital to the transaction of business in the United States and around the world. "The public can have confidence that surety bonds are issued by companies with financial strength, as reflected in their significant capital base, and that the surety industry will stand behind its obligations," stated Ms. Lynn M. Schubert, President of The Surety Association of America (SAA). "In good or bad economic times, surety bonds provide vital protections to consumers, employees, taxpayers, and the public treasury."

“The surety industry performs and, for more than 100 years, has met its obligations, time after time, year after year,” said David H. Skillings, Skillings-Shaw & Associates, South Freeport, Maine, and President of the National Association of Surety Bond Producers (NASBP).

“Professional surety bond producers have been instrumental in helping customers maintain an appropriate level of surety credit.”

Cost and availability of surety products are a function of risk. Therefore, companies with significantly increased prospects of default will find cost and availability more restrictive than those with superior financial standing. Surety is a type of insurance, which is similar to an extension of credit, and losses generally increase in a weakened economy. Therefore, the current economic situation may mean that some commercial surety customers will find it more difficult to obtain bonds or face higher premiums. Ultimately, however, those businesses with surety bonds will represent American businesses capable of fulfilling their obligations. And if they don't? The surety industry will be there to protect the consumers, the taxpayers, and other businesses that rely on the surety bond guaranty.

The surety industry is committed to protecting consumers and the public interest through surety bonds. The industry is well regulated and substantial safeguards are in place to minimize losses. The surety industry will continue to stand behind its product. The public can have confidence that bonds are backed by well-capitalized companies, that bonds will continue to be available to meet the needs of American business, and that the surety industry will stand behind its obligations.

*The Surety Association of America is a voluntary, non-profit, unincorporated association of companies engaged in the business of suretyship. It presently has approximately 600 member companies, which collectively underwrite the overwhelming majority of surety and fidelity bonds written in the United States, and seven foreign affiliates. The Surety Association of America is licensed as a rating or advisory organization in all states, as well as in the District of Columbia and Puerto Rico. It has been designated by all state insurance departments except Texas as a statistical agent for the reporting of fidelity and surety experience.*

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*The National Association of Surety Bond Producers is the international organization of professional surety bond producers and brokers. NASBP represents over 5,000 personnel who specialize in surety bonding, provide performance and payments bonds for the construction industry, and issue other types of surety bonds for guaranteeing performance, such as license and permit bonds. NASBP's mission is to strengthen professionalism, expertise, and innovation in surety and to advocate its use worldwide.*

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