

One Contractor's Transfer Preference: SUBCONTRACTOR BONDS



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Top 13 contractor in 2015, Walsh Construction, one of the largest domestic heavy civil contractors, is a Chicago-based general contracting, construction management, and design-build firm and a long-time user of subcontractor bonds. In fact, Walsh requires every subcontractor whose subcontract price is \$250,000 and over to be bonded. Walsh also requires subcontractors to provide the bonds equal to 100 percent of the individual subcontractor's contract amount. The bond must be written by a surety with a financial rating of AV or better.

Walsh's risk transfer preference is subcontract bonds rather than subcontractor default insurance (SDI) for a number of reasons:

- We like the fact that a respectable, financially viable surety, whose job it is to do the programmatic underwriting, is evaluating thoroughly the character, capacity, and capability of the subcontractor. A

subcontract bond is not just a "one off" product.

- The bond coverage is for 100 percent of the entire scope of the subcontractor's work and is not a percentage of that scope. The standard SDI instrument has limits on the amount of coverage for any one subcontractor and may also have limits on the duration of subcontractor coverage.
- The bond covers the extra costs to complete the bonded subcontractor's work scope. There is no deductible feature on a bond nor is there any co-pay on a subcontractor's bond as there is with the SDI instruments. SDI instruments are catastrophic two-party insurance products.
- We can add a multiple obligee rider to the bond, so it covers both the owner and any lender involved in the project. There is no similar feature to the standard SDI product.
- We do a number of projects in the federal market segment. The SDI product is not as universally accepted in that market as are bonds.

Walsh does, however, make the subcontract bond more responsive, by modifying a standard bond form to conform to our company's preferences:

- We ask the subcontractor's surety to include the name and contact information for a specific claims

person responsible for the particular account;

- We have included some other provisions to allow us to keep the project moving:
 - ♦ If the subcontractor requires financing to complete the project, we allow the surety to pay reasonable project completion costs, which will reduce the penal sum of the bond.
 - ♦ We require the surety to make a decision to complete its subcontractor's work scope in 15 days. The surety is entitled to a 50-day extension of that time frame by financing its principal during that time frame.

In short, Walsh views subcontractor bonds as a preferred means to address the risk of subcontractor default on its projects. Subcontract bonding has been a consistent policy of Walsh and will continue to be so well into the future. ●

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