Secure Trade Credit LIMITED

postcard

the newsletter from SECURE TRADE CREDIT

- Performance Bonds
- Advance Payment Bonds
- Retention Bonds
- Highways Act Bonds
- Customs Bonds
- Environment Agency Bonds
- Scheme Bonds
- Credit Insurance

Welcome to Postcard, our quarterly newsletter that we hope you will find informative, factual and relevant to your particular service or industry.

The Surety market is a viable, proven and trusted alternative to using banks when critical headroom is required to develop and grow businesses. Tying up bank facilities with bonds can prove costly, but it costs nothing to see if we can source alternative facilities via the surety market.

Please contact either David Schofield or Nick McNeil for a no-nonsense appraisal of your requirements.

In our next issue of Postcard NIck McNeil examines the role of Credit Insurance as a key element of risk management.

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Authorised & Regulated by The Financial Services Authority

SURETY BONDING

Various Insurance Companies have set themselves up as specialist Surety Underwriters and provide bonds which give a guarantee of financial compensation to the Employer or other beneficiary, depending on the type of bond.

There are three parties to a Surety Bond:

- The Employer (or Beneficiary) who has awarded the contract or requires a bond to guarantee certain obligations (eg HM Customs ,Environment Agency)
- The Contractor (or Principal) who is carrying out the work
- The Surety (or Guarantor) who has guaranteed to the Employer that if the contractor does not meet its obligations they will pay the Employer, up to an agreed amount, the damages sustained.

One of the main differences between bonds issued by Banks and Surety Company Bonds is that those issued by Banks are normally independent of the contract conditions and can be paid "on demand". The Surety Bond gives the contractor the protection of the contract. In other words the Employer can call on the Bank to pay out, and they will, whilst the Surety Company will ask the Employer to prove that there has been a breach of the contractual obligations by the Contractor.

The other major advantage to the contractor in using a Surety Company is financial. When a Bank issues a bond it is offset against the contractor's current Bank facilities, thus tying up working capital facilities. When a Surety Company issues bonds borrowing facilities are not affected. Normally the only security required is a counter indemnity which is merely reflection of the Surety Company's common law rights to reclaim money paid out under a bond call.

Most companies utilising the Surety Company market for bonds establish a facility against which bonds are issued as required, subject to certain underwriting conditions. It is possible to arrange a portfolio of facilities to ensure that adequate bonding capacity is in place. Facilities are normally put in place without any charges, premium is only paid as and when bonds are issued. The advantages of having sufficient facilities are that the Contractor knows exactly what headroom he has and can insert the name of a Surety Company in tender documents at the early stages of contract negotiations. If an Employer has not dealt with a contractor before providing the name of a Surety Bond Company is positive confirmation to them that the Contractor has been vetted by an independent expert.

Many companies require bonds for their operations across a broad range of industries. Whilst the Construction, Civil Engineering and Facilities Management sectors have a constant requirement for Performance Bonds, Maintenance Bonds, Retention Bonds and Highways Act Bonds our client base also includes companies involved in Waste Management (Environment Agency requirements) Importing, Transport and Distribution, Brewers and Distillers (HM Customs requirement).

Whatever your requirements, Secure Trade Credit will try and find the practical solution.