

SURETY TIPS

HOW TO PROTECT YOUR COMPANY

Our last *Surety Tips* provided some warning signs to look for when you think a contractor is having financial trouble. As a follow up to this, consider the following before you hire a subcontractor, a second tier subcontractor, or a supplier who you believe could be having financial trouble:

1. First and foremost, do you really need to work with a contractor or supplier who is showing signs of financial difficulty?
2. Regardless of the circumstances or the extent of warning signs, always, always, always pre-qualify who you do business with. This includes an up-to-date financial review (and be willing to sign a Confidentiality Agreement).
3. The cost of a performance and payment bond or a supply bond is minor compared to the cost of a contractor or supplier default.
4. Up front, add contract language which will better protect you if warning signs appear after the project starts. These include:
 - A) Provisions to pass the title to you for any on-site or off-site materials and supplies needed to complete the work;
 - B) Step-in rights;
 - C) A broad definition of insolvency to cover contractor failure scenarios;
 - D) The right to require a bond during the course of the project;
 - E) Stringent payment terms that give you flexibility; and
 - F) If a job covers multiple years, the right to perform annual or semi-annual credit checks.
5. Payment terms are usually spelled out in your contracts but, for a potential troubled contractor or supplier, you may want to consider some alternatives to direct payment. These include:
 - A) Joint checks made payable to (1) the party with whom you are contracted; AND (2) their subcontractors, their suppliers or their unions; or
 - B) A Funds Control arrangement, which is essentially a custodian of the funds so that your payments will be used to pay the expenses related to your project and not diverted to other projects.

If you think a contractor, supplier or other vendor is having financial trouble, make sure to take the necessary steps to protect your business. If you need more assistance, contact one of our surety professionals at The Graham Company.

THE GRAHAM COMPANY SURETY DEPARTMENT



MORE THAN JUST PROVIDING BONDS

Our Surety professionals handle everything from a complete review of your financial history to effectively managing the relationship with your bonding company. The Graham Company is known for our understanding of accounting standards, our ability to analyze a contractor's financial statements, and our creativity in developing strategies to maximize Surety credit.

THE GRAHAM COMPANY

The Graham Building
One Penn Square West
Philadelphia, PA 19102
grahamco.com 215.567.6300

SURETY AND CONSTRUCTION RELATED AFFILIATIONS

- The National Association of Surety Bond Producers (NASBP)
- Construction Financial Management Association (CFMA)
- Associated Builders and Contractors, Inc. (ABC)
- Associated Pennsylvania Contractors, Inc. (APC)
- American Subcontractors Association (ASA)
- Construction Association of Eastern Pennsylvania (CAEP)
- General Builders and Contractors Association (GBCA)
- Utility Contractors and Transportation Association (UTCA)

OUR PROFESSIONAL STAFF



MICHAEL J. MITCHELL, CPA, CPCU
EXECUTIVE VICE PRESIDENT

With The Graham Company for 25 years, Mike has a national reputation in the Construction and Surety industries.

215.701.5214
mmitchell@grahamco.com



BRIAN LORIGAN, CPA
SURETY PRODUCER

Brian has over 15 years of accounting experience and is a 2010 recipient of the PICPA's "40 under 40 Members to Watch" distinction.

215.701.5253
blorigan@grahamco.com



KEVIN ADAMS, CPA
ACCOUNT MANAGER - SURETY

With The Graham Company for almost 20 years, Kevin is an expert in financial analysis and surety underwriting.

215.701.5240
kadams@grahamco.com



LINDA DOZIER
SENIOR SURETY ASSOCIATE

Linda has over 20 years of Surety experience (18 years with Graham) and provides technical support to all Graham Surety Clients.

215.701.5324
ldozier@grahamco.com



Actions Matter.