

# **AMBUSH ASSOCIATES, INC.**

Commercial & Employee Benefits Insurance Brokers  
P.O. Box 3729, Silver Spring, MD 20918  
(301) 681-9270 | (301) 681-9414 fax  
www.ambushinsurance.com

## **SURETY BOND UNDERWRITING CHECKLIST**

We thank you for your interest in our bonding and insurance services as a result of your recent inquiry. Please review and provide the following information in order for us to establish an underwriting analysis of your firm.

1. Resume of Business History/Business Profile
2. Resume of All Principals owning and operating business
3. Resume of Key personnel (superintendents, foremen, project managers, etc.)
4. Business Financial Statements (last 3 years, if applicable)
5. Business Financial Statements (within last 6 months)
6. Personal Financial Statements (within last 90 days or recent year-end)
7. Copy of Certificates of Insurance Coverage for your company
8. Bank Reference and Line of Credit Letters
9. Supplier Reference Letters (3 minimum)
10. Previous Obligee/Owner Reference Letters (3 minimum)
11. Contractor's Questionnaire (attached)
12. Work-In-Progress Schedule (current month or quarter-ending)
13. Aging Schedule of Accounts Receivables and Payables (as of recent statement)
14. Schedule of Completed Contracts during prior 2 years

Upon receipt of the above mentioned preliminary information and its subsequent underwriting review, we will be in a position to advise your bondability. If you have any questions, please feel free to call upon us at any time.

Regards,



Anthony W. Ambush, President

# What Sureties Look For

	<b>Underwriting Factor</b>	<b>Ideal Case</b>	<b>Average</b>	<b>Red Flags</b>
I.	<b>Corporate Financial Statements</b>	CPA Prepared Fiscal Certified Audit and 6 Month Review/Audit	CPA Prepared Fiscal Review and 6 month review/compilation	CPA Prepared compilation statement (Unacceptable for Fiscal Reports, no Interim Reports)
	<b>Working Capital</b> (Varies generally \$100,000+)	10% of work on hand or more	7% to 10% of W.O.H. Varies	Less than 7% of W.O.H. or under \$100,000 or negative
	<b>Net Worth</b> (Varies Generally \$100,000+)	10% of W.O.H. or more	7% to 10% of W.O.H. Varies	Less than 7% of W.O.H. or under \$250,000 or negative
	<b>Cash</b>	Strong, not borrowed	Adequate, some may be borrowed	Little cash or overdraft
	<b>Accounts Receivable</b>	Quick turnover	Mostly current, some slow 30 days	Slow, disputes or claims included amounts due from developers
	<b>Accounts Payable</b>	Current	Mostly prompt Some, but few slow pays	Mostly 30 days or older – past due
	<b>Debt</b>	Little or none	Ratio to net worth 2 or 3 to 1	Heavy with constant reliance on creditors Ratio of debt to worth of 3 to 1 or greater
	<b>Accounting Method</b>	Percentage of Completion	Percentage of Completion	Cash (unacceptable) or Straight Accrual

## What Sureties Look For *(Continued)*

	<b>Underwriting Factor</b>	<b>Ideal Case</b>	<b>Average</b>	<b>Red Flags</b>
<b>II.</b>	<b>Credit: Corporate &amp; Personal</b>	Credit reports & references indicate discount or prompt pay habits	Mostly prompt with some slow items showing in credit reports	Predominantly slow with "Past Due" C.O.D. "Cut Off" reports. Public filings regarding lawsuits of IRS tax liens or bankruptcy
<b>III.</b>	<b>Indemnity</b>	All related corporations, owners & spouses of stockholders	Major stockholder & spouse all or some of related companies	Corporate only and no personal. (Unacceptable for "S" corporations)
<b>IV.</b>	<b>Personal Financial Statement</b>	CPA prepared, net worth strong, some liquidity, not speculative development, dated same as corporate financials	Limited personal worth, random date, some real estate investments	Limited worth & liquidity, high personal debt, speculative development. Owner refused to provide statement.
<b>V.</b>	<b>Work-On-Hand Records</b>	All jobs profitable None excessively over or under-billed, formal cost system in effect, quarterly reports provided	Most jobs are profitable, some over-billing, basic cost system evident, quarterly reports provided	Thin and/or cost decreasing profit margins, heavy under or over-billings, "Cost To Complete" estimates inaccurate or unable to complete the form due to poor or nonexistent cost system
<b>VI.</b>	<b>Banking</b>	Unsecured Line seldom used	Adequate Line, partially used, sometime secured by assets	No Line of Credit If Line exists it is secured by current assets or Line fully fixed Borrowed
<b>VII.</b>	<b>Experience</b>	5 years or more	3 to 5 years	Under 3 years

## What Sureties Look For *(Continued)*

	<b>Underwriting Factor</b>	<b>Ideal Case</b>	<b>Average</b>	<b>Red Flags</b>
<b>VIII.</b>	<b>Ownership</b>	2 or more active owners	1 owner with good key personnel	“One man shop” No key personnel or absentee ownership
<b>IX.</b>	<b>Continuity</b>	Formal written plan, corporate buy-sell funded by life insurance	Disposal through will, no buy/sell, but some life insurance payable to corporation	No buy/sell, No corporate life insurance
<b>X.</b>	<b>References</b>	Excellent Supported by letters	Generally good some fair	Reluctance to provide information, few available or mostly negative

## Other Red Flags

- ☐ **Management unwilling to provide necessary information to surety**
- ☐ **Timeliness of information** - Delay in providing financial statements or W. O. H.
- ☐ **Overextension** - Contractor requesting more than 50% increase in single job size or aggregate work program from largest previous experience
- ☐ **Rapid growth** - Continuous large percentage increases in volume
- ☐ **Previous bankruptcy**
- ☐ **Extensive litigation**
- ☐ **Recent fiscal year end a loss. Two consecutive losses create extreme problems**
- ☐ **No CPA or CPA involved** is not experienced with construction accounting
- ☐ **Stockholders borrowing from corporation or taking excess distributions as an "S" corporation**
- ☐ **Bonded corporation involved with speculative real estate**
- ☐ **Frequency of bid spreads** (Loss by more than 10%)
- ☐ **Difficulty in obtaining releases** from owners on jobs near completion
- ☐ **Using more than one surety** to obtain bonding at the same time
- ☐ **Evidence to the surety that the account has been "shopped"** for bonds to several sureties
- ☐ **Heavy net billings in excess of costs & earnings** - possible cash flow problems
- ☐ **Heavy net cost in excess of billings and earnings** - possible reduction or original estimate of gross profit or loss on the job
- ☐ **Widespread territory of operations**
- ☐ **Supplier or subcontractor complaints or notices**
- ☐ **Contractor responsible for construction design**
- ☐ **Specialized construction** - Few competitors or sole source
- ☐ **Patented process**