



Contract Surety Bonds

Understanding Today's Market

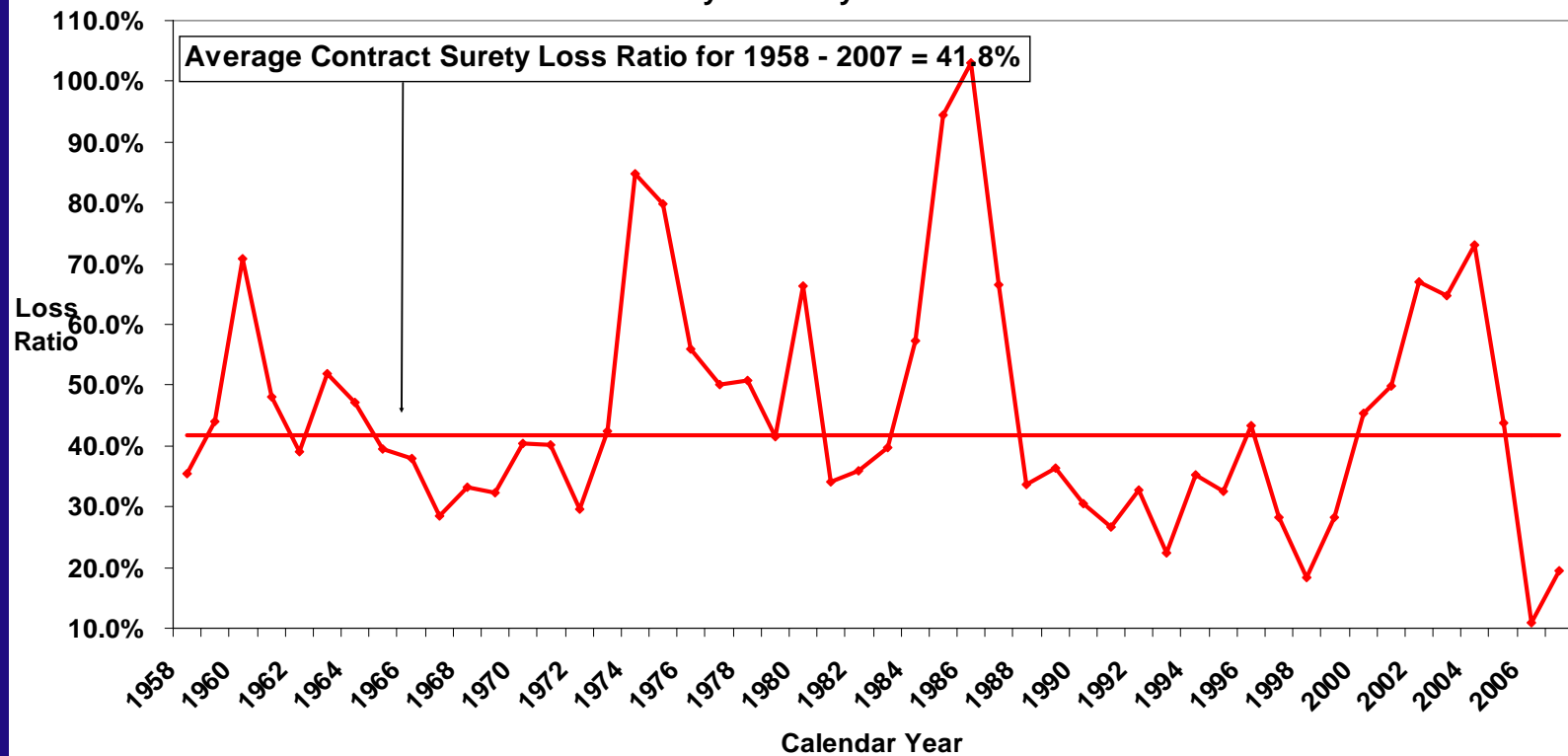
2008

Surety Information Office

Surety Losses & Profitability

Contract Surety Industry Loss Ratios CY 1958 - 2007

Source: The Surety & Fidelity Association of America



Surety in the Early 1990s

Strong economy

Excess capacity in surety market

Low premiums

Relaxed underwriting

Commercial surety expansion

1990s



Surety in the Early 2000s

Sagging economy

Significant commercial losses

Heavy contract surety losses

Increased failure rates

2000s



Surety in the 2000s

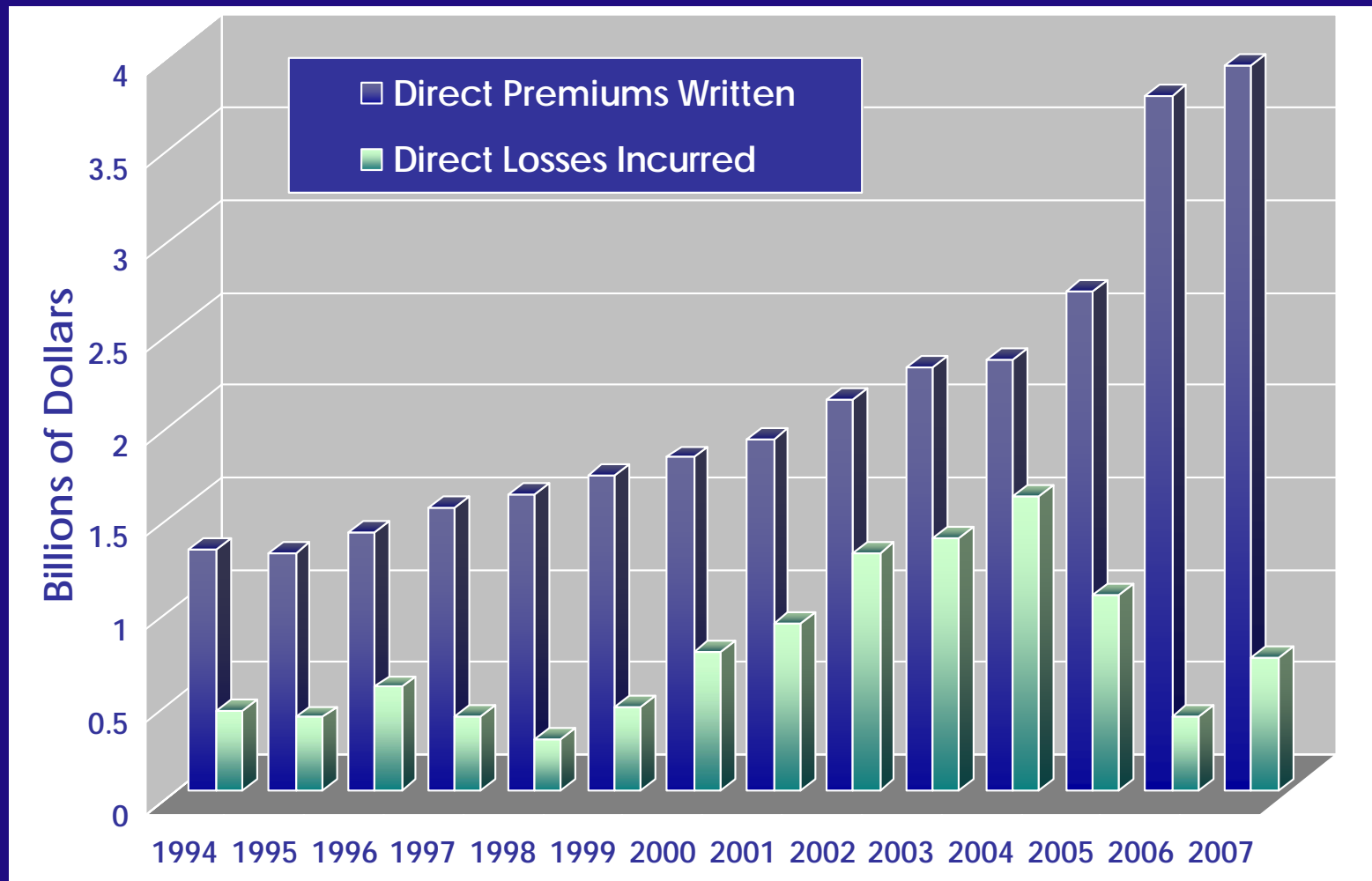
Failure Rates	2002-04	2004-06	2005-07
All Construction *	28.5%	23.6%	22.0%
Trade Contractors	29.0%	24.4%	22.5%
Heavy Highway	27.4%	21.6%	19.8%
Nonresidential Bldgs	25.0%	17.5%	18.8%
Industrial	24.6%	14.6%	12.8%

*excluding single family residential

Source: BizMiner



Contract Surety Premiums & Losses



Source: The Surety & Fidelity Association of America

www.surety.org



Top Writers of All U.S. Surety

Surety & Fidelity Association of America Top 15 Surety Writers 1994 vs 2007

1994		2007	
Surety	Premium (\$millions)	Surety	Premium (\$millions)
1 Reliance → Travelers	147.1	1 Travelers	1,017.0
2 USF&G → St. Paul → Travelers	144.1	2 Zurich Insurance Group	448.8
3 F&D → Zurich	142.5	3 CNA Insurance Group	436.1
4 St Paul Group → Travelers	140.9	4 Safeco	423.3
5 AIG	111.5	5 Liberty Mutual	341.3
6 Aetna → Travelers	106.6	6 Chubb & Son	303.6
7 Continental → CNA	100.7	7 Hartford	223.3
8 Fireman's Fund Gone	97.3	8 HCC Surety Group	158.1
9 CNA Insurance Companies	92.8	9 Arch Capital Group	127.0
10 Safeco	88.9	10 ACE Ltd.	118.7
11 Chubb	77.7	11 International Fidelity	113.8
12 Hartford	74.0	12 Great American	99.2
13 Amwest Gone	70.2	13 AIG	94.7
14 Capsure → CNA	55.3	14 NAS Surety Group	91.0
15 CIGNA Group → ACE	49.7	15 Hanover Ins Group	78.5

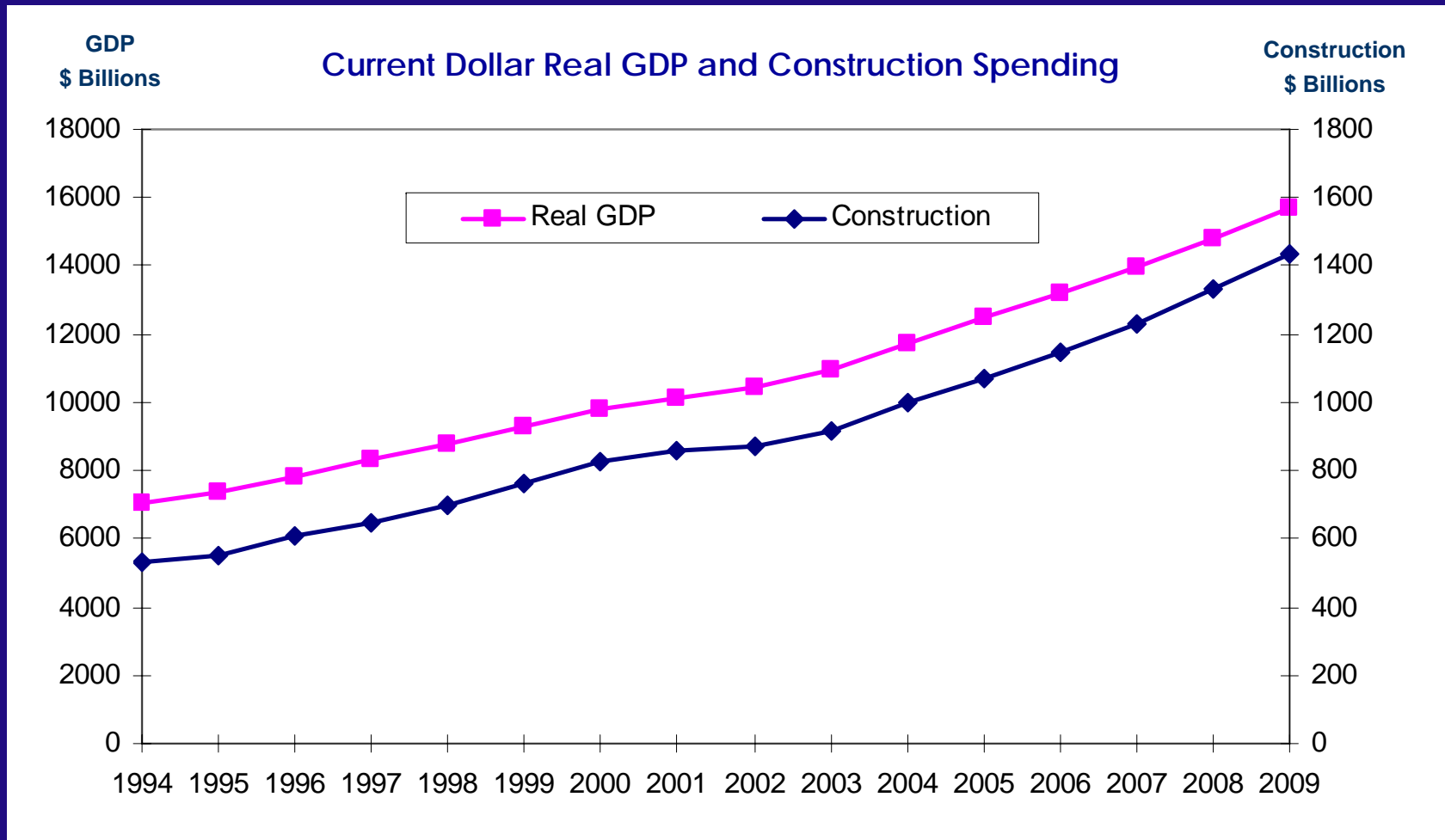
Companies that are gone in **RED**

Companies that merged or were sold are in **BLUE**

Companies that merger or were sold a second time are in **GREEN**



Construction Put in Place and GDP



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Years 2005 Through 2009 - FMI Forecast



Construction Activity

U.S. Census Gains April 2007 – April 2008

	All Construction	Public Construction	Private Construction
Total Construction	-3.9%	+6.8%	-7.2%
Nonresidential	+11.6%	+7.0%	+15.4%
Hotels/Motels	+41.8%	-	+45.4%
Manufacturing	+25.7%	-	+25.2%
Public Safety	+27.4%	+27.7%	-
Power	+22.5%	-11.0%	+33.1%
Education	+9.3%	+7.3%	+19.4%
Transportation	+20.9%	+22.7%	+16.3%
Amusement/Rec	+10.7%	+1.1%	+23.0%
Office Buildings	+16.7%	+26.4%	+15.0%
Highways	+4.7%	+5.2%	-
Health care	+7.0%	+10.7%	+6.2%
Commercial	-0.2%	-11.6%	+0.3%



Outlook for 2009

2007

2008

2009

Thorough underwriting
Economic downturn
More competition, fewer projects
Well capitalized sureties
Stratification of capacity
Increase in contractor failures



Underwriting

Capital
Capacity
Character



Underwriting

Capital
Financial
Statements
Indemnity
Working Capital
Work-in-Progress



Underwriting

Capital

Financial
Statements

Indemnity

Working Capital

Work-in-Progress

Capacity

Resumes

Contingency
Plan

Business Plan

Equipment



Underwriting

Capital

Financial
Statements
Indemnity
Working Capital
Work-in-Progress

Capacity

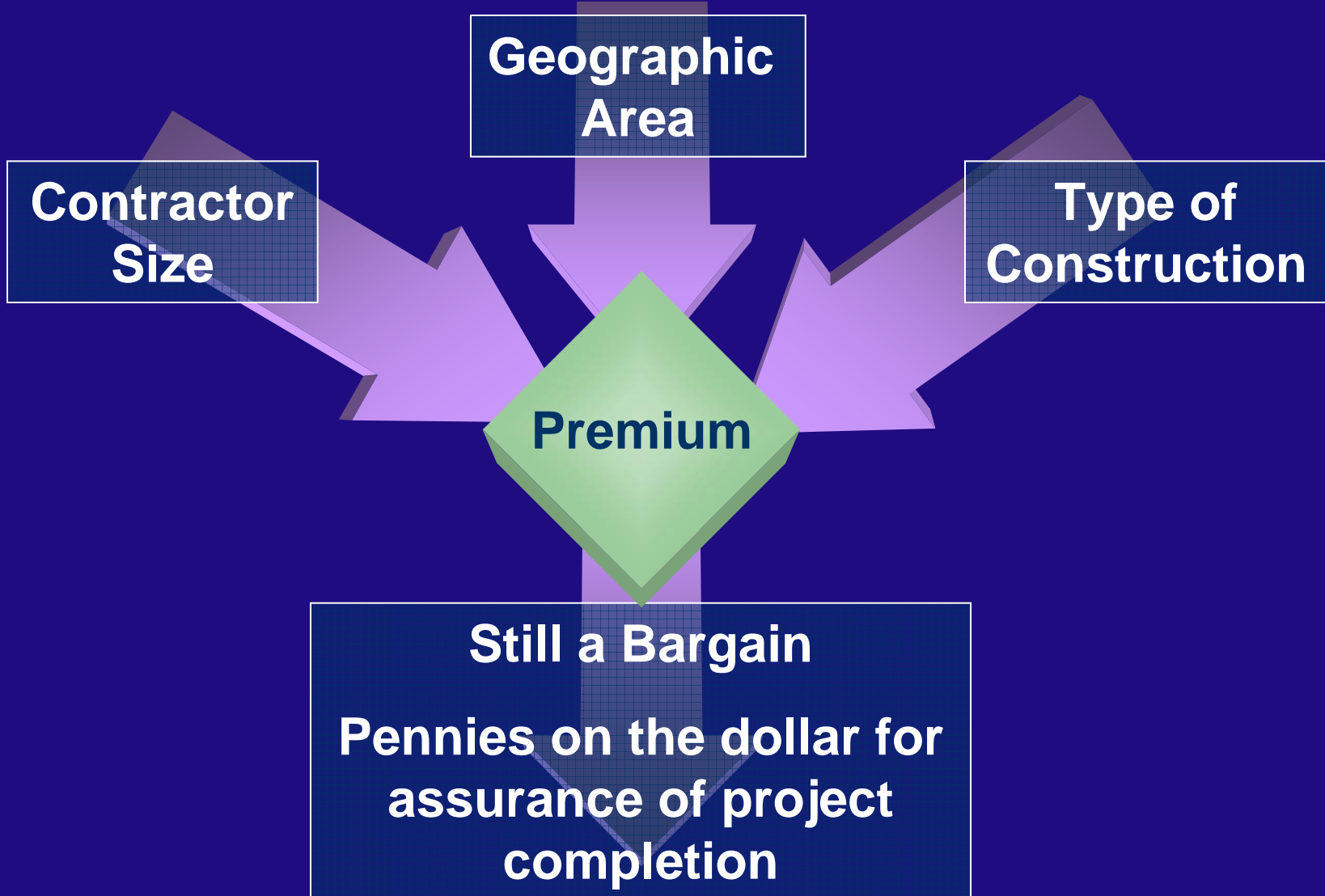
Resumes
Contingency Plan
Business Plan
Equipment

Character

Reputation
Relationships
References



Bond Premiums



Capacity

Small
(< \$50 M)

Medium
(\$100 M)

Jumbo
(> \$500 M)

**Competitive
Surety Market**

Multiple sureties

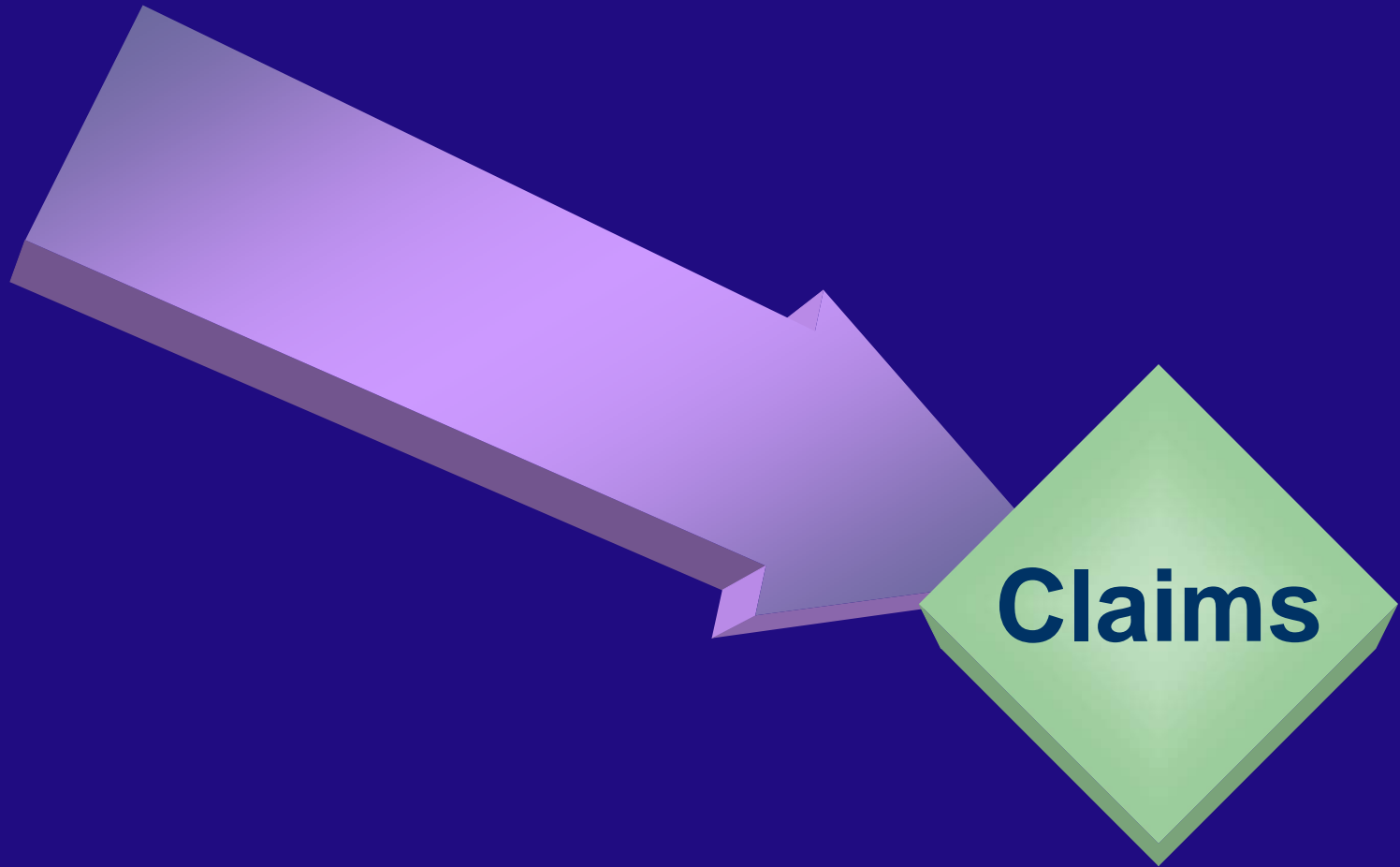
Joint ventures

Partial bonds

**SBA
Program**
(under \$2 million)



Claims



Advice for Today's Market

Contractors

- Know rights & responsibilities
- Stay within capabilities
- Manage growth & overhead
- Learn why contractors fail
- Communicate
- Prepare for the next "Boom"



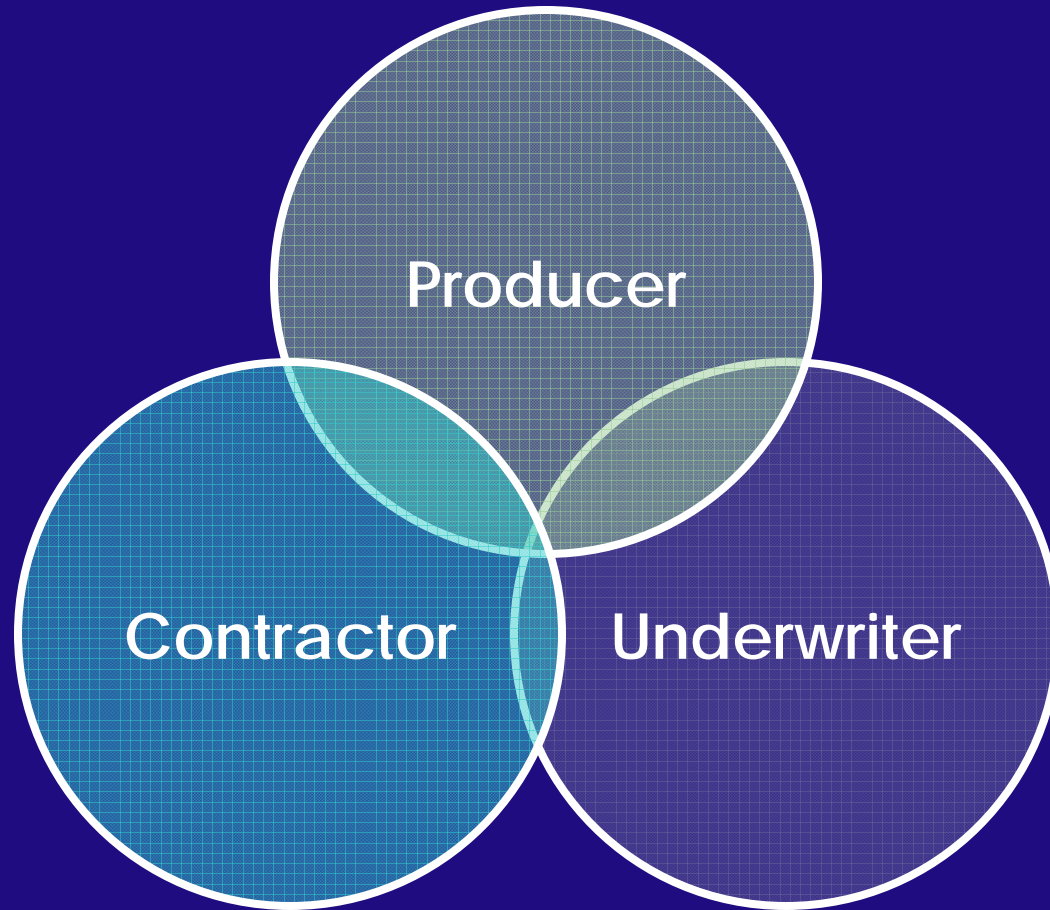
Advice for Today's Market

Contractors

- Contract terms
- Bond forms
- Construction CPA
- Adjust overhead
- Bank line of credit
- Conserve capital
- Bond subcontractors
- Qualify surety



Advice for Today's Market



The Surety Relationship



For More Information



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