

## License & Permit Bonds

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The normal guarantee of a License and Permit Bond is that the contractor will comply with regulations, laws, and ordinances in conjunction with a license to conduct a business or a permit to perform work in accordance with building codes. The underlying law requiring the bond sets forth the Surety's obligation when it is not disclosed in the bond form. The bond is for the benefit of the public and protects the governmental body that granted the license or permit.

There is a great variation of coverage by the various government body requiring these bonds. Some bonds protect only the city, county, or state government authority that granted the license or permit. Other bonds allow an injured party to proceed directly against the surety.

### **Cumulative Liability Hazard**

A concern to bonding companies is stacking or cumulative bond liability. Some jurisdictions require cumulative recovery for each year the bond is in effect. Each year a bond continues, the governing body contends recovery of the full bond amount for each year the contractor holds a license. For example, a \$10,000 bond in effect for 10 years would accumulate an aggregate of \$100,000. These bonds are very dangerous and should be avoided.

### **Successive Recovery Hazard**

Make clear that the surety's liability is limited to the total bond amount regardless of the number of claimants. The bond should not allow "successive recovery." The following language should be included in the bond form: "Regardless of the number of years this bond may remain in force, the liability of the surety shall not be cumulative, and the aggregate of the surety for any-and-all claims or action under this bond shall not exceed the sum of the bond amount."

### **Excellent Bond for both Contractor and Bonding Company**

Unless there is a "performance guarantee," taxes, fees, pollution or environmental exposure in the License and Permit Bond, the experience for surety companies is very good. Most often, these bonds are written freely for businesses.

The term of the bond usually follows the term of the license or permit. Normally the license and the bond are continuous until the license or permit is no longer needed at which time the bond will be cancelled or allowed to expire.

For more information or to make application for insurance or bonding, please contact:

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