

Surety Bonds - The Facts

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A surety bond is a contract surrounded by the following three parties. The primary party (who will be performing a contractual obligation) is known as the principal; the obligee is the party who is the recipient of an obligation, and the surety, who ensures that the principal's obligations will be performed. By means of an agreement like this, the surety agrees to sustain for the benefit of the obligee. The penal sum is a specified amount of the money which is the maximum amount that the surety will be required to pay in the event of failure to the principal. Should this occur, then the surety turns out to be insolvent. Thus, the surety on a bond is usually an insurance company whose solvency is verified by private audit and under government regulation.

Surety bonds are frequently used in the construction industry. The general contractor must provide an owner a bond for its performance of the terms of the contract. Conversely, owners and contractors may also provide payment bonds to ensure that subcontractors and suppliers are paid for work done.

Surety bonds are also used in other situations such as securing the proper performance of fiduciary duties by persons in positions of the private or public trust. A Mortgage Revenue Bond Loan is a type of mortgage loan where the cost of borrowing is partially subsidized by a mortgage revenue bond. Although details differ between programs, mortgage revenue bond loan programs are in general designed to lower the cost of home ownership for low to medium income borrowers (sometimes for targeted occupations or neighbourhoods).

An insurance bond is a single premium life assurance policy for the purposes of an investment. Mainly an insurance bonds were with profits policies. Since an introduction of concordant insurance funds they have often been marketed as an investment bonds. The more specialist planning scenarios include the tax deferred status, an ability to write an investment in trust and reduce an inheritance tax liability on an estate, and an exclusive access to an expensive investment links like guaranteed or protected profits funds are the beneficial features of bonds. Bonds can provide an income or growth and when income is required there are now bonds that can offer a set minimum guaranteed income for life of the plan holder.

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