"Building for Eternity"

Ωmega Church Consultants, Inc.

architectural • financial • consulting
construction management

Payment and Performance Bonds

At some point in the design process the architect may ask the church leadership if they want contractors on their project to provide surety bonds for their work. A surety bond is like an insurance policy that is purchased by the major subcontractors on the project. The bond provides certain remedies to the church in the event the contractor fails to perform according to the contract terms, or fails to pay for materials or labor provided on the project. The cost of the bond may run 1%-3% of the contract amount, and the subcontractor will pass this cost on to the church in his bid amount. Therefore, if $2 million of the project is bonded, the church may pay $20,000 to $60,000 in bond fees to protect the church from default by the major subcontractors. The bonding company does not act as an arbitrator and will not help the church resolve disputes. If a contractor defaults, the surety company will usually bring in a replacement contractor to complete the contract.

Normally, the subcontractor must personally indemnify the bond company with all of his corporate and personal assets. Many good subcontractors may not be willing to provide a bond for their work because of their aversion to personally guaranteeing the contract and providing detailed personal financial information to the surety company. While bonding is common on large public and commercial projects, there are alternatives to surety bonds that we will discuss in this column next month.

Jeff Thomas is Vice President of Omega Church Consultants, Inc.,
Church Designers and Builders, located in Indianapolis. You may
contact him at **jeff@omegachurchdesign.com** or (317) 359-6248
or visit the Omega website at **http://www.omegachurchdesign.com**.