

Dealer Surety Bonds

Information for Independent Dealers

INTRODUCTION: The current insurance and financial marketplace has greatly increased the scrutiny by Surety Bond Companies as they consider your application for a dealer's bond. This article should assist you in understanding what a bond company is seeking from you before you make application for this required coverage. Requirements do vary somewhat between bond companies. This is a general overview.

Q. What are the basic underwriting or selection criteria for a dealer's surety bond?

A. Properly completed application and good credit! They also prefer that you have experience in the business.

Q. What kind of credit issues would prevent me from getting a bond?

A. Most bond companies require a 680 or better Experian score for their "standard" bonds. Specifically, you will have trouble getting a bond if you have liens, judgments, or a bankruptcy; you have high revolving debt or high overall debt; you have collections; you have habitual or excessive delinquencies; you have a large number of inquiries. You will probably be declined if you have had an automobile repossessed or are in arrears on child support.

Q. Are there requirements other than the good credit score?

A. Yes! Ideally, the applicant will have assets equal to 5 times the amount of the bond AND own real estate.

Q. What if I have no credit history?

A. You may be asked to complete a financial statement. Your real estate, cash, investments and other assets will be considered.

Q. If an applicant for a bond does not have good credit or assets, are there companies that will accept a co-signer?

A. There are very few bond companies that will accept co-signers and those "co-sign" programs are rapidly disappearing from the marketplace. If you find a company that does, you should expect to pay approximately \$2000.00 per year for a bond AND the co-signer MUST have near-spotless credit and have assets equal to 7 to 10 times the amount of the bond. Generally only family members are accepted as co-signers. Also, remember that in the event of a claim, the co-signer will be responsible for reimbursing the bond company for any claims paid.

Q. What if I don't have a co-signer and my personal credit is unacceptable?

A. The only options are to either post a cash bond with the state equal to the bond requirements, or the "instant issue market" for bonds. With "instant issue", the applicant must post collateral in an amount equal to 10% of the bond (example: \$5,000.00 for a \$50,000.00 bond) and expect to pay at least \$5,000.00 per year for 3 years. Some bond companies may require payment of the collateral and the 3 years bond payment in advance of issuing the bond! Some will allow payments one year at a time. Keep in mind that if you are required to post collateral on your bond, the bonding company holds that collateral until your credit has improved or for at least 6 months after the bond period has expired.

Q. If I am considering a partnership, what if one partner's credit is good and one partner's is bad?

A. The rates will be based upon the credit history and assets of the partner with BAD CREDIT. It will still be considered as high risk though the 10% collateral "instant issue market" bond may not become necessary. Bond amounts in this case might run from \$1000.00 to \$1500.00 per year or more!

Q. What if I'm incorporated or a LLC? If one officer has bad credit and the other 2 or 3 have good credit? How will that be treated?

A. Usually, if two or three of the officers have clean credit and assets, the bonding company will treat the application as "standard" and you should expect to pay somewhere around \$500.00 or so per year for the surety bond. The bond company will require personal financial statements and an indemnity (guarantee of payment for a bond claim) from all owners of 10% or more of the dealership.

Q. If I have a good credit score and assets, what should I expect to pay for a bond?

A. In North Carolina, for a \$50,000.00 bond, you should expect to pay somewhere between \$500.00 and \$800.00 for a 3-year bond or approximately \$200.00 per year. For a \$15,000.00 bond (South Carolina) you should pay approximately \$375.00 to \$400.00 for a 3-year bond or about \$125.00 per year. As a general rule of thumb, a dealer with an acceptable credit history should expect to pay from 3% to 7% of the bond amount annually. As an example, on a \$50,000.00 bond the dealer might pay from \$150.00 (3%) per year up to \$350.00 (7%) per year.

Q. Why are motor vehicle dealer bonds more expensive than other types of bonds?

- A. Bonds for motor vehicle dealers are considered to be one the higher risk classes of bonds. They are a “financial guarantee” class of bond and the claims frequency is high. This makes it hard for new, inexperienced or poorly funded dealerships to qualify for the “standard” bond market.

Basically, the bond company wants to know if the applicant, if necessary, could walk into a bank and obtain a \$50,000.00 unsecured loan to repay the bond company after a claim. If their credit or personal assets would not allow them to do so, they will not qualify for the “standard” bond market.

Q. What are the bond companies seeing from bond applicants that creates difficulties?

- A. For some reason, the applicants will report “clean credit” on their application when in many cases they’ve had bankruptcies, foreclosures and “write-offs” on unsecured credit card debt. In short, applicants for dealer bonds are not making accurate representations on their bond applications. This causes the bond company to be wary of issuing a bond under any program to the applicant.

Q. So? Any advice if I suspect that my personal credit will be a barrier to obtaining a bond?

- A. Check your own personal credit history before you apply.

Consider a corporation or LLC as the method to organize your dealership and ensure that those officers and partners have “clean credit”. Complete the application accurately, honestly and legibly - no abbreviations. Don’t apply for a bond with multiple bond companies at once. Each application will trigger a credit check that will further lower your credit score. If you are declined, do not resubmit your application with a different business name, address, etc. As a general rule of thumb, most bond underwriters would rather have good credit with no experience than experience with bad credit!

Q. Once I've got my bond, do I need to be concerned about renewing it?

- A. Yes! If you have a claim against your bond, it will not be renewed. When your bond comes up for renewal, the Bond company may look at your credit again, so keep your credit current and “clean”. Most importantly, operate your business in compliance with all local, state, and federal laws.