POLICY

Formal solicitations for Goods and/or Services may in some cases require that the University be protected from financial risk in the form of a bond(s). If a bond is required, it must be clearly indicated in any solicitation. Buyers are to review use of bonds in advance with their supervisor.

PROCEDURE

I. Types of Bonds

Generally, two types of bonds may be required. A Bid Bond and/or a Performance/Payment Bond.

When a Bid Bond is required, an Insurance Company will generally represent a vendor to a Surety Company who in turn issues the bond naming the University as payee under certain conditions. The Bid Bond is written so that the vendor named in the bond will:

1. If successful bidder, be named in a performance/payment bond by the Surety Company.

2. If successful bidder, but declines award or otherwise withdraws their bid, Surety will pay the University a percentage of the value of the offer (usually 10%) or the difference between their offer and the next low bid, whichever is less.
Performance Bonds are generally written in conjunction with Payment Bonds and are written in terms of a percentage of the value of the contract involved. For example, a 100% performance/100% payment bond would hold the Surety Company responsible for assuming the contractor's obligation to complete the contract and make good all payments.

A Performance/Payment Bond is executed to insure that the University will be "held whole" in a case when a contract is in default. That is, the contract will be completed at no cost to the University.

The methods by which the University will be held whole vary and are subject to negotiation. If the University finds the contractor to be in default, they must call in the Surety Company to investigate/research the situation. Then, depending on the method agreed to in negotiations, the Surety Company will proceed to:

a. Pay the University the difference between the vendor in default and the next responsive bidder, provided they are still able to perform.

b. Make a loan to the vendor in default if the vendor could thereby complete the contract.

c. Bring in a second vendor to complete the contract.

It is essential to be aware that in some cases the terms agreed to in the bond may favor the vendor if the University fails to uphold its contractual obligations.