North Carolina
DEPARTMENT OF INSURANCE

A CONSUMER'S GUIDE TO

SURETY BONDS

WHAT IS A SURETY BOND?

Surety Bonds are contracts guaranteeing that specific obligations will be fulfilled. The obligation may involve meeting a contractual commitment, paying a debt or performing certain duties. Under the terms of a bond, one party becomes answerable to a third party for the acts or non-performance of a second party.

Under modern suretyship, an insurer's promise of performance is available to meet a wide variety of business, governmental and individual needs. Surety bonds are required in a significant number of business transactions as a means of reducing or transferring business risk. State and federal government agencies require surety bonds for the purpose of reducing public responsibility for the acts of others, and the courts require bonds to secure the various responsibilities of litigants, including the ability to pay damages.

A typical surety bond identifies each of three parties to the contract and spells out their relationship and obligations. The parties are:

- **A Principal –** The party who has initially agreed to fulfill the obligation which is the subject of the bond. Also known as the Obligor.
- **An Obligee –** The person or organization protected by the bond. This term is used most frequently in surety bonds.
- **A Guarantor or Surety –** The insurance company issuing the bond.

The agreement binds the Principal to comply with the terms and conditions of a contract. If the Principal is unable to successfully perform the contract, the surety assumes the Principal's responsibilities and ensures that the project is completed. Below are the most common types of surety bonds:

- **Bid –** Bond which guarantees that the successful bidder on a contract will enter into the contract and furnish the required payment and performance bonds.
- **Payment –** Bond which guarantees payment from the contractor of money to persons who furnish labor, materials equipment and/or supplies for use in the performance of the contract.
- **Performance –** Bond which guarantees that the contractor will perform the contract in accordance with its terms.

IF YOU HAVE QUESTIONS, THE CONSUMER SERVICES DIVISION OF THE DEPARTMENT OF INSURANCE IS HERE TO HELP.

855-408-1212 Toll free
919-807-6750 Outside of North Carolina
919-715-0319 TDD (Telephone Device for Deaf Callers)
919-733-0085 Fax

North Carolina Department of Insurance
1201 Mail Service Center
Raleigh, NC 27699-1201

You can find additional information as well as a downloadable copy of our Request for Assistance form on the **NCDOI Web site**.