A STUDY OF THE PROBLEMS IN THE ISSUE OF CONTRACT BONDS

THESIS FOR THE DEGREE OF B. S.

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A Study of the Problems in The Issue of Contract Bonds

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Chapter I

Purpose of This Thesis

The purpose of this thesis is to collect all available data and suggestions that concern the writing of contract bonds, and from this data attempt to point out the fallacies and weaknesses of the present system, also keeping in mind that any system has room for improvement and through constructive thinking, outline any suggestions for improvement that seem to have any reasonable amount of usefulness behind them. The present system is woefully weak in some respects and it is certain that any constructive work along these channels will be a tremendous benefit to the public.

Chapter II

Chances of Bonding Irresponsible Contractors

The presence of a bond upon a contract cannot and does not insure the awarding of contracts to parties who are responsible and will continue to be so without respect to the bond. The causes and reasons for default on a contract are so numerous that an underwriter would have to have superhuman knowledge and skill to foresee all of them. Inexperience, incompetency, over-expansion, labor-unions, bad weather and a multitude of other difficulties, that can hardly be foreseen by the underwriter, may cause default. It cannot be denied that the surety agents issue bonds to contractors who later prove unworthy, but the practical question is whether or not this occurs too often or in too large a proportion of cases and if so what are the remedies for the situation.

Few people besides the underwriters realize how thoroughly and to what extent the applicants for contract bonds are investigated. Besides the comprehensive form given to the applicant to fill out, the bonding companies carry on inquiries with banks, material men, and people who the contractors have previously worked for. At present there are credit associations in every city organized for the purpose of supplying just such information as may be needed. In Detroit the material men have an organizations to which they send all bills for material over thirty days old, and this association works hand-in-hand with the surety companies in an effort to eliminate the irresponsible and dishonest contractor. Circumstances where the contractor does considerable work and applies continuously to the same agency for bond

Render an elaborate investigation unnecessary at every application. As a whole, underwriters carry on extraordinary investigations in regard to the ability of the contractor to carry out that particular contract.

Even with all of the efforts made by the underwriters to establish the proof of bondability, it infrequently occurs that the agent is unable to obtain proof of the fitness of the contractor and he must write the bond. It is quite evident that the surety companies would be widely condemned if they withheld bonds from every contractor that could not furnish evidence beyond any possible doubt as to his ability to carry out the contract. The situation is rather delicate in that certain parties charge the surety companies with laxness yet other contractors are continually berating them for refusing to write certain bonds, that in the contractor's views are merited. The best that can be done in many cases that are neither good nor clearly bad, is for the underwriter obtain all of the available information and then decide what the wisest and fairest thing to do is. There are no absolutely inflexible rules that can be held to because of the variety of conditions under which bonds are applied for. One company holds that a contractor must have quick assets equal to fifteen percent of the contract;yet in one case, they issued a bond to a contractor on a $50,000 job, where his assets amounted to $1500 dollars. The underwriter must take into consideration the character, experience, industry, ability, financial resources, facilities and many other factors if he is fair to the several parties affected. Sometimes the situation is si ple, while in many cases fairness to the contractor, consideration of the owner, and the safety of his own company requires a prolonged study and in the end there is still some possible chance of failure.

It is essential that the surety company obtain as much information as is available and if there were morecooperation than is sometimes

shown by the other parties to the bond, conditions could be improved a great deal. For example, many contractors do not aid the surety writer at all, and even at times try to conceal important facts from them even though they are reputable firms. They all tend to apply to the agents whose companies are not so insistent upon financial statements and other similar matters. Engineers are often unwilling to give out information that would be very helpful to the underwriter. Some material men who have reasons of their own for desiring a contract to go through, will withhold facts from the surety company. Similarly, bankers who are heavily involved in contractors affairs often desire a contract to go through for their own benefit. They are all merely trusting to fate in order to make themselves more money, rather than the use of good business policies. Luckily with the organization of these different interested parties, the situation is rapidly becoming better.

It hardly needs saying that an underwriter would not bond a contractor whom he had reason to believe irresponsible, although sometimes an early default makes it appear so. No company could long remain solvent if they were to issue bonds to irresponsible contractors. When contractors who arenot worthy are bond, it is very likely that the agent has been mislead by some means or other. Very likely the surety company has been mislead by the financial statement of the principal. Sometimes, as past experience has shown, contractors, who on the surface seem to be successful and even have been very successful, turn out to be irresponsible. There is the case of a large subway contractor who had done some forty million dollars worth of subway work, and then taking some new contracts, failed, leaving several million dollars worth of work unfinished. In building as in any industry there are cycles and many experienced men get caught with a great deal of work on their hands in a period of rising costs. Numerous cases could be dug from the records of

of the surety companies.

It seems as though it would be foolhardy to bond inexperienced contractors since even experienced men prove to be poor risks sometimes, but often there is no other alternative than to bond the inexperienced applicant. Some companies have been severely criticized for giving bonds but upon reflection one can see that it would never do for a bonding company to withhold all suretyship from inexperienced contractors regardless to other conditions. If the surety companies were to abide by such a narrow rule it certainly would work a hardship upon contractors and also upon the beneficiaries of the bonds. It often happens that contractors without experience or with very little, must be bonded by some one, or the work will not be done. Just such a condition arose in Michigan when the Groesbeck administration adopted the extensive paving campaign. There was so much work to be done that there were not enough contractors for the jobs. This was especially true of the districts a little distant from the cities where there were a few experienced paving contractors. The state establishes a Highway Department with expert Engineers who draw specifications. The local contractors probably have never built any roads to such plans, but at least they are familiar with labor and topographical conditions. Bidders from away will come; they may have built roads to specifications as the department hands out to them, yet they are unfamiliar with labor conditions and any particular local features and as a result there are not available a sufficient number of contractors who are successfully experienced in road building and who at the same time are familiar with local conditions. If the work is to be done, the company has no recourse but to bond the inexperienced contractor. It is certain that if bonds were refused the public would absolutely condemn the surety companies as lacking in public spirit and hindering valuable improvements. As a whole the companies have been fair and done the bonding;

suffering the losses without complaint.

The determination of a contractor's fitness as to experience calls for the keenest and most experienced underwriting judgment. If surety companies were to adopt a fast rule not to bond bidders unless they had completed successfully jobs of similar size and character, then it would be even more difficult to get work completed within the time allotted and when the appropriations are available.

In 1925 more than fifty percent of the contractors who built the existing subways of New York had failed or retired and a new expansion program wasto be carried out. If the companies were to place all bidders to rigid experience tests they would never be able to qualify enough men to complete the work.

Construction costs have risen 150% in the last 15 years and during this period of increasing costs, the death rate of experienced builders has been high. If it were not for the new money and fresh blood always flowing in, the ranks of the experienced contractors would be sadly depleted. The surety companies make no apologies for writing bonds for inexperienced contractors.

Chapter III

One of the commonest of criticisms made that agents are allowed too much authority to issue bonds in accordance with their own judgment, and that they do so because of the personal gain. This criticism is without grounds although it is easily seen how it is construed since many agents like to give the impression that they have great authority and to make the applicant feel that he is dealing with someone of importance. It is true that sometimes agents have authority to bond certain contractors without first referring to the home office, but they are particular parties whom the surety company has been dealing with for year and who they know to be financially sound. These misconceptions may be somewhat due to the fact that the power of attorney issued by the surety company to its agent is usually unlimited except in amount and is quite general as to the obligations it may cover. In some states the authorities do not even permit a limit to the amount of the bonds that the agent may write since the bond-approving officials could hardly be expected to examine every bond and find out if the agent had the right to issue that type of bond and to that amount. The surety companies do not intend that the agents write any kind of bond and to any amount by this broad power of attorney. The companies make it clear to the agents that the power of attorney, as between the company and agent, gives the latter no authority whatever and they are to use the power only as instructed. In all cases these instructions are very explicit and exacting and in practice the authority of the agent to issue bonds on their own discretion is rigidly limited.

It is quite obvious that the companies must make some provisions for the more rapid issue of bonds and to do this they often have a trained bond man in the larger cities about the country. The delay which

would be caused by demanding approval by the home offices could not be tolerated. These trained bond men have very few limitations upon themselves, but it can be plainly seen that they will not last long on the job if many bonds are defaulted. Any applications upon which there is some doubt in their minds they refer it to the home office for approval and hence the application is either accepted or rejected. The agents in around the designated district must refer to this special bond man all applications for bonds for his approval. Sometimes agents are permitted to write bonds to the amount of $5000-$10000 without referring to the special representative but in any case the amount is exactly stated.

The premium income of the surety companies was $134,000,000 for 1928 and a large part of this comes from contract bonds written to cover billions of dollars worth of work. These enormous figures show that there are thousands of agents who have a part in it and it would be useless to say that the underwriting authority has not been abused sometimes. It seems a miracle that the surety companies have been able to keep the situation so well in hand. The competition in the field of contract bonds has been the keenest but the companies are not eager for the business at the expense of safety and many sad experiences have shown that contract bond writing cannot successfully be left in the hands of the agents. Agents are not permitted to violate their underwriting authority and repeated instances of that nature have caused punishment even to the extent of forfeiture of their agencies.

Chapter IV

Types and Rates of Contract Bonds

Generally speaking there are three classifications of contract bonds: supply contracts; construction contracts, Class A; and construction contracts, Class B.

Supply contracts are simply contracts of purchase and sale with no obligation to perform or construct, and no obligation to pay the contractor's or vendor's debts for labor and material; or to pay for things delivered. The rate for supply contracts is one quarter of one percent of the contract price.

Construction contracts, Class A, include only work and labor upon personal property. They do not include work on land or water and a number of other classifications like automatic telephone exchange equipment, pipe lines, lock gates, machinery made to the special order and design of the purchaser, etc. None of these contracts are merely contracts of purchase and sale. All of them involve some kind of labor or work, but not so much as building construction, i. e. the contractor does not undertake to build a bridge, or a pier, or a skyscraper, but he does undertake to do something toward that end. The rate on this type of bond is three quarters of one percent of the contract price per year.

Construction contracts class B includes erection or repair of all buildings or work on land or water. All of the following come under this class: breakwaters, culverts, aqueducts, sewers, pipe lines, water works, canals, ditches, dams, locks, piers, docks, wharves, wells, excavations, foundations, masonry, subways, tunnels, railroads, hi hways, public improvements and any buildings.

The surety on these contractos guarantees performance of a

contract of building construction and in addition to that under the statutes of the Federal Government and in most of the States and under the form of bond for private work adopted and standardized by the American Institute of Architects the surety also guarantees to pay all contractors indebtedness for labor and material. On these contracts most of the companies have standardized the construction period at twenty-four months or less because from experience they find that the hazard is practically the same on a three months or six months contract as on a two year. The rate is one and one half percent of the contract price up to twenty-four months. There is a movement now to reduce this rate to one percent, but there is no definite development in this direction as yet.

Chapter V

The Fundamental Soundness of the Present Bonding System

It seems that some people consider that a bond covering a contract absolutely guarantees the performance of the contract and if the contract is not performed then the surety company has failed in its responsibility to the public and is charged with inefficiency and poor management. This situation of course is untrue and has not been thought out because it is not legal nor consistent with the true conception of suretyship. People who think this do not consider the similar case of a fire insurance company when they write a policy. The company does not guarantee that there will be no fire, but in the event of a fire, they will repay the policy holder for the damage suffered. Similarly, contract bonds do not guarantee absolutely that the contract will be performed. Any one knows the contractors have always defaulted at times and that no system of bonding will absolutely eliminate any chance of default. It is not logical for one to blame the bonding company in default any more than to blame the fire insurance company in case of fire. Yet this is done many times.

If a company becomes surety for a bank chashier, it does not pledge its word and capital that the cashier will not steal, but in case he does steal, it will indemnify the bank for its loss. All bonds are more or less instruments of indemnity and contract bonds should be regarded as such. The beneficiary of a contract bond has the right to expect indemnification, but not the performance of the contract necessarily. Generally, it happens, that the surety company steps in and finishes the work, since it is the easiest and best way of fulfilling its

promise to indemnify usually, but the conditions of the bond may be satisfied if the surety company merely pays the beneficiary whatever losses he incurrs because of the default.

A little history of suretyship may help to clear up this point some. At first, no bonds of any kind were required and officials awarded contracts to whomever they wanted to. As could be expected, there were thousands of dollars lost because of failure. There was always a good deal of agitation after a loss, of course, and finally laws were enacted requiring that the contracts be awarded to the lowest bidders and that he should supply a bond for the faithful performance of the job. There were no surety companies at the time, so a system of individuals going bonds for their friends grew. Of course there were defaults and suits on top of that and so about 1890 the first contract bonds were written. This was a vast improvement over the old system, but the change in the character of the sureties has not changed in any respect the nature of the whole transaction. Some discussions of contract bonds imply that the surety companies assume additional obligations to those of the contractor. This is false and out of keeping with the original idea of suretyship. Contract bonds did not originally cover the payment of labor and material bills as well as guaranteeing the performance of the contract. They have been enlarged for greater convenience and safety of the public, but they have not been changed in essential character. Contract bonds are just as they always have been, an agreement to indemnify for losses caused by the defaulting of the contractor.

Contract bonds are non-cancellable financial guarantees, protecting the owner from a possible increase in cost. They guarantee that the contractor will carry out his obligations and in a sense is a form of credit, since it increases the contractor's financial strength, for

the benefit of the owner, by an amount equal to the penal sum of the bond.

Some have the opinion that the surety companies try to evade wither the letter or the spirit of their agreements with the public as is embodied in the bonds which they write, but, on the contrary, it seems that they do their best to interpret the agreements in a broadminded way and with fairness to all parties concerned. In most cases, the beneficiaries of the bonds are governmental bodies, and the work is for public improvement, so that public sentiment demands fair treatment from the surety companies.

The present day demand for bonds necessitates the issuing of bonds in great variety and to all classes of people and of course claims of all kinds are being paid to the beneficiaries. These claims involve huge sums of money. In 1924 the losses sustained by the sureties amounted to $34,400,000 while in 1928 with a large increase in business, the corresponding loss was only $32,500,000. This shows a great deal in the way of improved underwriting. With these tremendous amounts of money paid out, there are still critics who maintain that the sureties endeavor to dodge their obligations.

Even if the evidence just referred to were not convincing, it would be hard to understand how any bonding company could accomplish much in the wrong direction, because of the rigid laws under which they must operate. The companies first must be licensed by the state and then they become subject to all the laws passed by the state for the protection of the bondholders. The states maintain insurance departments whose duty it is to see that the companies abide by the laws. It is quite clear that the surety companies could not evade the contracts.

People do not realize that the adjustment bond claims is not such a simple job as the adjustment of other insurance claims. Claims accruing from contract bonds quite obviously involve factors far more numerous than an ordinary fire claim under a fire insurance policy. Bonds are a

three party instrument and the companies frequently find that when claims are made, that they cannot meet the demands of one of the other two parties without violating the rights of the third party. In such cases the only safe course is to wait for a judicial decision unless the parties can come to some friendly agreement. The surety companies do not desire such action and try to avert it whenever possible. Generally speaking, the companies desire to pay claims promptly and fairly. The companies attempt to satisfy every requirement of the contract and to meet the expectations of the bondholder, both as a matter of honesty in business and as a matter of sound business policy in the promotion of goodwill.

Chapter VI

Substitutes for Contract Bonds

The surety companies are convinced that contract bonds serve a most useful purpose and that as yet, there is no adequate substitute for them. It is certainly true that personal sureties are not as safe nor as convenient as corporate suretyship even though the latter is still used in some localities. Bonding companies have found by experience that it pays to anticipate trouble and to run toward it rather than to sit back and let it find them. Often by bolstering up the contractor with a little financial aid much larger losses have been averted. It certainly is wiser to keep the job moving than to allow it to cease and then have to reopen work at a later date. The average personal surety does not have the knowledge, organization, or the ability to be able to foresee the impending trouble and thus avert a tie-up. Even with all the shortcomings of the surety companies it is generally agreed by everyone, including owners that corporate suretyship is far superior to personal suretyship.

The suggestion that has often been made, that contract bonds be replaced by a deposit of negotiable securities with the owners, is hardly plausible since there are few contractors with enough securities to carry out this plan. Such a deposit would certainly deprive the contractor of some working capital and thus weaken his financial stability to some degree. Such a deposit is really not additional security since with the signing of the contract he has already pledged his financial resources. The contract bond really increases the financial resources to the amount of the bond and protects the owner from an increase in cost. Also it must be remembered, that is case of default, and the owner has such a deposit of securities he is accountable for every dollar used.

The owner or his attorney will have plenty of trouble trying to determine which claims to pay and which to reject. Everything that they do is subject to the approval of the contractor and certainly he will not hesitate to sue them if any funds are improperly used.

Another suggestion has been made to increase the percentages withheld from the contractor, but this is subject to the same objections as was the deposit of securities. It would certainly cripple the financial resources of most contractors.

A fourth suggestion is that contractors deposit a certified check with the owner but this certainly has the objection of crippling the resources of the contractor and making the owner liable for any funds expended in case of default.

A fifth, and the most likely suggestion is not a substitute for contract bonds, but an aid to better underwriting. The general idea of the plan is a central investigation bureau maintained and operated by all the surety companies together. This plan certainly would reduce the number of losses by surety companies since it would then be practicable for such an agency to maintain a full staff of trained men capable of analyzing each application to the best extent of their knowledge. It would do away with the inadequate forces of the companies and centralize all investigations. Each company would contribute to the operating cost according to the amount of bonds written by the company. Such an organization would maintain offices in many sections of the country and certainly this would speed up the issuing of bonds without the fear of passing too hasty judgment.

The central bureau would certainly eliminate the doubtful contractor in that he would be unable to obtain a bond unless from some outside wildcat organization and public officials would never dare to let a contract under

such conditions.

Of course there would necessarily have to be honest officials operating the bureau, but in this day and age the crooked are not long countenanced in business. This seems to be the best and most logical improvement yet suggested. The honest hardworking contractor would certainly have no objection and the unworthy one is the contractor we wish to eliminate.

Chapter VII

The Bonding Company in Relation to the Letting of the Contract

Private owners may, and often do, eliminate irresponsible bidders by just not inviting them to bid upon a job. They have complete control over such situations and may eliminate whom they please, for any or no reason at all. Such is not so with the awarding of public contracts however. Public officials have no such freedom as this; in fact, they are almost required by law to award the contract, after advertising for competitive bids, to the "lowest bidder" or some similarly designated applicant. These laws of course are to protect the public from loss through corrupt officials who might wish the contract awarded for political reasons. The fact that all of the contractors furnish good substantial bonds should not carry any weight in the awarding of the contracts. The officials should take into consideration all other factors because even the lowest monetary bidder may be able to furnish ample proof of his bondability and yet not be the proper one to carry out the contract to the best interests of the public. Many times it has occurred, that the lowest bidder is able to prove himself worthy of suretyship yet it is very clear to those whose understanding of the situation is good, that in all likelihood his performance of the contract would be very unsatisfactory, because, of inexperience, lack of equipment, or some other basic reason. Of course, public sentiment often drives the officials to award contracts where it is sometimes unwise, but, nevertheless, the lowest bid should also carry experience, financial responsibility, moral integrity, and general good character with it. There have been numerous cases taken to court and in all of them the court has defined lowest as to mean not the lowest monetary bidder necessarily, but the lowest responsible bidder with all things taken into

consideration.

Recently, several of the larger states, where elaborate highway programs are carried on, have begun to make investigations of bidders, through questionnaires, detailed financial statements, banking institutions, and other means. This certainly is a valuable step in the right direction if carried on extensively. The widespread use of uniform experience questionnaires and such information which seems quite likely to become a permanent feature of the construction industry should certainly go a long ways toward the elimination of irresponsible bidders.

The surety companies as a whole certainly favor the using of discretion in awarding the contracts. To outsiders it may not be quite clear, but underwriters can readily understand how under certain conditions a contract bond might reasonably be issued in favor of a contractor, to whom it would be undesirable to award the contract. For an example, a man of good character or a concern of high standing applies for a bond, and it is known that their financial standing is the best, then a bonding company can hardly withhold suretyship even if the man or concern has very apparently bid too little or for some other reason will not likly be able to complete the contract without a loss. Then the situation arises where a third party has an interest in the letting of the contract, such as a supply house and they are willing to furnish collateral for a certain contractor, in return for suretyship for him. The question is more or less, could the surety company, if financially able to cover the indemnity, refuse to bond the contractor even if the latter seemed to be lacking in some of the requirements? The surety companies' primary function is indemnity and they would be severely criticized if they withheld bond from a responsible party just on the grounds that they did not believe that the applicant should be bonded.

In plain words, the bonding companies would prefer to have public officials use discretion in awarding contracts to the lowest bidders.

Chapter VIII

Constructive Work on the Part of Both Parties to the Bond

Both parties to the contract bond have been doing considerable work toward improving conditions; the contractors, though the Allied General Contractors Association; and the bonding companies through the Surety Association of America.

The Allied General Contractors have made the following recommendations:

1. That public officials prohibit the use of certified checks furnished or guaranteed by a surety company or its agent.
2. That public officials eliminate the use of bid bonds in the letting of contracts and substitute certified checks, or negotiable securities. If, however, checks or negotiable securities are accepted, it will not do to require them to have "Sureties' Consent" or "Bidding Letters" because that would merely reproduce the bid bond situation. Surety companies give consents and sign letters and advantage gained by the elimination of bid bonds would be lost.
3. That all concerned with contract bonds use uniform questionnaires covering the skill, integrity, and reponsibility of the contractors.
4. That laws be passed making it criminal for public officials, in any way concerned with the letting of contracts, to be pecuniarily interested in the placing of bonds.
5. That contracts include a clause providing for a board of arbitration to take care of any disputes arising during the life of the contract.
6. That the surety companies stop their agents from giving "free service" to bidders prior to the filing of the bond.

The surety companies have done some work in an attempt to better the situation, mainly along the line of associations to eliminate the irresponsible bidder. In many of the larger cities local surety agents have associated and are cooperating with contractors associations or with the individual contractors in an effort to eliminate the bad practices prevalent in the writing of bonds.

The Surety Association has a contract bond committee which is made up of one representative from each member company. The committee meets frequently and is at present concentrating its efforts in an attempt to eliminate the use of bid bonds, but because of statutory requirements and rules of contract awarding authorities, it seems that bid bonds will continue to menace the construction industry, unless some legal action can be taken to eliminate them. The Association is absolutely in favor of abolition of the bid bond.

The Surety Association has created a committee on better underwriting. This committee has made an exhaustive study of the practices of the different companies in underwriting and has made a comprehensive report which can hardly fail to aid the underwriters to some extent.

The Association also has a joint conference committee, that works with a similar group representing the AlliedGGeneral Contractors, or with any other such group as has been formed.

Chapter XIX

Suggestions for the aid of the Underwriter

It seems to be that the general opinion is that the responsibility for the loss in the majority of cases can be blamed on both the surety companies and the contractors. It is certain that the surety companies cannot properly underwrite their business unless contractors give them complete information. A bank statement showing all available credit and on what terms it is extended is very important. All work under construction should be listed with its location and state of completion. The work to be bonded should be fully described, and information as to the names and amounts of other bidders, the location of the job, the maintenance provisions, the sub-contractors together with information as to whether they will be bonded and whether the job has any unusually hazardous features about it. Some further suggestions that have been offered as an aid to the surety companies are:

Allow the surety companies plenty of time to handle the application, because in a last minute rush the surety companies fear deception and will often withhold a bond because of it. A large bond also requires reinsurance which is not always immediately available.

In times of prosperity, when business is booming, avoid over expansion and do not bid upon more work than the net quick assets of your organization warrants. Over extension has probably caused more lossesand failures than any other single cause. Be sure you know how you are going to finance the work before accepting the job.

Be careful of contracts that are payable in anything except cash. Many cases can be cited where the contractors were paid off in bonds or some other form of paper and when the contractor came to discount the paper

such a high rate was demanded that the contractors suffered heavy losses.

Do not sublet work to other contractors unless they can furnish bond and especially so if the sub-contractor is financially weak. It is best not to deal with sub-contractors if there is any doubt as to his ability to do the work at a reasonable profit to himself.

Do not be at all backward about taking the surety company into your confidence and let them advise you. The surety companies are more interested in the success of a contract than in its failure since success means profit and failure means loss to them.

Do not invest any surplus capital in speculative securities because in a pinch they will have to be marketed at a loss. Also the integrity and business sense of a man is judged much by the investments he makes.

Above all do not file complimentary bids because they will likely be much too high and may make it difficult for the low bidder to obtain a bond. Do not bid upon a job unless you want the job.

Some further points that would be helpful if carried out by engineers are as follows:

Send the surety company a copy of each payment estimate and keep them notified at all times as to the progress of the work.

If default is threatening notify the surety company and they may be able to aid in preventing it.

Try not to award or plan more work than can reasonably be expected to be done with the labor and material available. This is especially true of highway building where outside contractors come in to do some of the work. This situation is liable to run up costs because of the competition for labor and material.

Be sure to describe the work in the official proposals so that the contractor can readily tell whether he has the experience, organization,

and capital to carry out the job.

Have as few alternates as possible in the bids because there is bound to be some question arise about them.

Do not attempt to make the contract bond cover equipment bills because equipment does not form part of the finished job and it is unjust to the surety to expect them to be liable for any such items.

Do away with "bid bonds" and "surety consents" and make contractors supply certified checks.

Be sure and publish the name of the surety company writing the bond for a contract because it will soon expose any political combine that is attempting to monopolize the business. It will also bring to light any continued lax underwriting and the bonding of unworthy contractors.

Many contractors' failures can be laid at the feet of unscrupulous material men or supply houses. Most states protect them with lien laws which make the surety company liable for payment of all materials used so the material men have only to see that the contractors obtains his bond. It is a wise policy for any underwriter to thoroughly investigate a contractor who any supply house is particularly anxious to have bonded.

In conclusion, it seems that the success or failure of the whole situation depends mainly upon faith and goodwill of all parties concerned.

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