CONSTRUCTION EXECUTIVE

Executive Insights in Insurance & Bonding

What is a payment bond and how does it benefit subcontractors and suppliers?

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Public construction work in the United States is generally awarded to the lowest bidder through the open competitive sealed bid system. Surety bonds play a critical role in making the system work, not the least of which is the payment bond.

The payment bond protects laborers, materials suppliers and subcontractors against nonpayment. Because mechanic's liens cannot be placed against public property, the payment bond may be the only protection these claimants have if they are not paid for the goods and services they provide to the project.

More than 100 years ago (because government property is not subject to mechanic's liens), laborers, materials suppliers and subcontractors had nowhere to turn if they were not paid for their services. The federal government authorized the use of corporate surety bonds to secure construction projects, which is still covered under the Miller Act today. The use of payment bonds is one important way surety bonding protects taxpayer money.

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