APPENDIX B

BENEFITS OF SURETY BONDS AS SECURITY

Adapted with permission from the Ontario Home Builders’ Association – Modern Surety Bonds Briefing Note

Provided the terminology set by legal in Appendix B: Development Agreement Surety Bond is utilized, surety bonds provide numerous benefits to both the City and the development community.

For the City

i. **Liquid.** A surety bond is comparable to a letter of credit in that it represents a liquid instrument that would provide the City with the funds required to correct a default by the developer.

ii. **Responsive.** The trigger to making a claim under a surety bond mirrors that of a letter of credit. The City would provide written notice to the surety that the developer has defaulted under its development agreement. The City would not be bound to take any action or proceedings, or to exhaust its recourse against the developer or any other security, before turning to the bond for payment.

iii. **Customized.** The specific terms of the subdivision bond can be tailored by legal in order to provide financial protection to the City. Proposed terms are outlined in Appendix B: Development Agreement Surety Bond.

iv. **Prequalification.** In order to obtain a surety bond, the developer is required to demonstrate, to the satisfaction of the surety, the financial means to complete the project, as well as the expertise, resources, and operations control to bring the project to a successful completion. This serves as an additional endorsement of the developer to the City.

v. **Performance improvements.** Should a claim be filed against the bond, the developer is required to repay the surety all amounts specified under the surety bond. The bond keeps the developer responsible, accountable and motivated to fully perform all of its obligations to the City.

vi. **Promotes growth.** Accepting an alternate form of financial security that is of benefit to developers sends a clear message to the development industry that the City is innovative, responsive to the needs of developers and growth-oriented. Attracting development opportunities, at no additional risk, helps ensure continued growth of the City and its economy.

For the Development Community

i. **Off-balance sheet security.** Surety bonds are considered “off-balance sheet” security, meaning they do not encumber a developer’s balance sheet as a letter of credit would. Using this form of security maximizes the financial resources available to the developer to complete the proposed development.

ii. **Access to unproductive cash.** A surety bond allows the developer to access the substantial amounts of idle cash that usually secures the letter of credit, the developer is much better positioned to satisfy the cash-flow requirements of the development project.

iii. **Greater credit availability.** By using a surety bond instead of a letter of credit, the developer makes available bank financing that can be used to grow the company’s business and improve its liquidity.