

Surety Bond Essentials for Licensing

Best Practices for Industry and
Regulators on the NMLS





SURETY BONDS & BEST PRACTICES

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The Foundation for Surety Bonds



Purpose of the
Surety Bond

Surety vs.
Insurance

The Scope of
Surety Credit



The Surety Difference



Surety



VS.

Insurance



The Surety Difference



Surety

- Considered a line of credit
- Underwritten like credit
- Must be repaid
- Three party obligation
- Requires a legal contract

Insurance

- Premium paid to share the risk
- Two party contract
- Cost is based on the risk
- Deductible is the only cost out of pocket for a loss



The Scope of Surety Credit



- The “Art” of Underwriting
 - Conditions of the Obligation
 - Personal Information of the Principal(s)
 - The four C’s of Underwriting
 - Industry Experience
 - Licensing & Compliance
 - Financial Analysis



The Scope of Surety Credit



Partnership
within
Surety
Credit



With
Surety
Company



With the
Bond
Producer



With the
Obligee



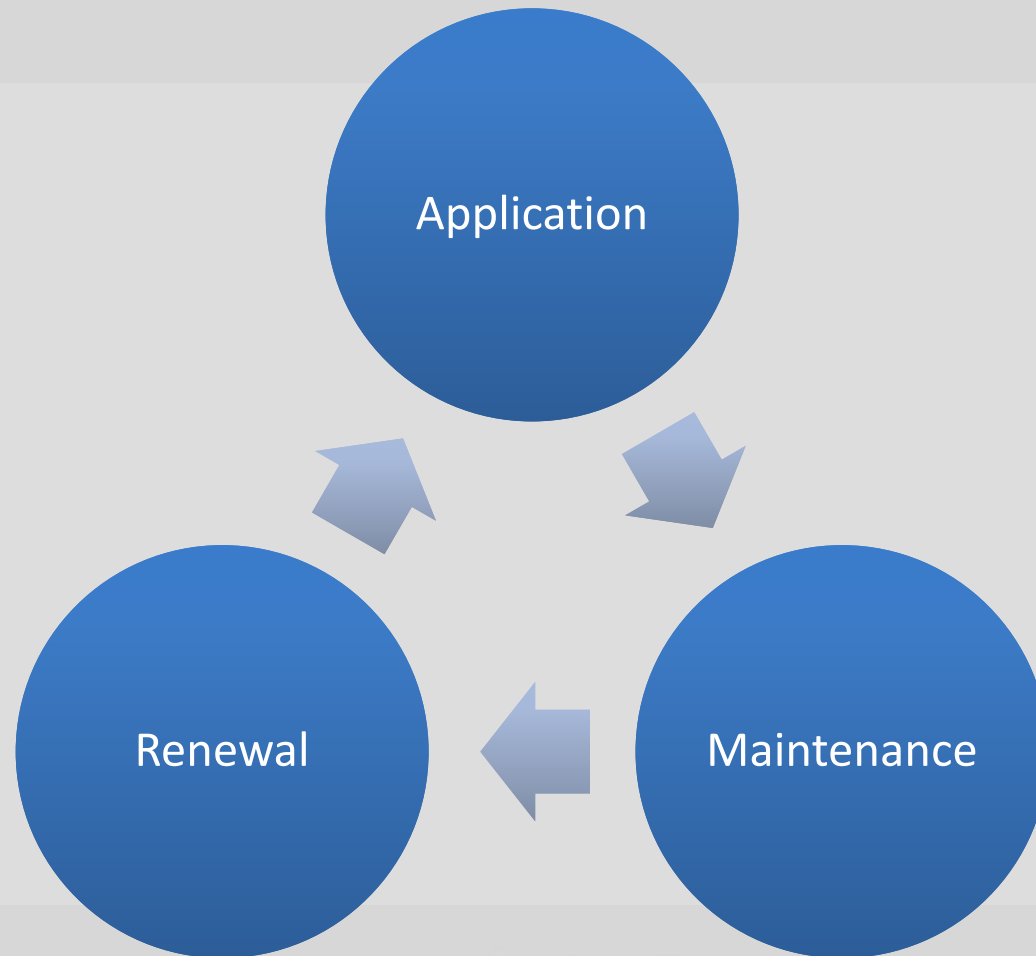
Purpose of the Surety Bond



- Underwrites the Licensee
- Provides a “Prequalification” for the Obligee
- Fiscal Motivation for the Surety
- Provides a Financial Guarantee to the Obligee
- Recovery Vehicle
- Reduces Cost for the Obligee



The Bond Lifecycle



Application



Supporting
Documents

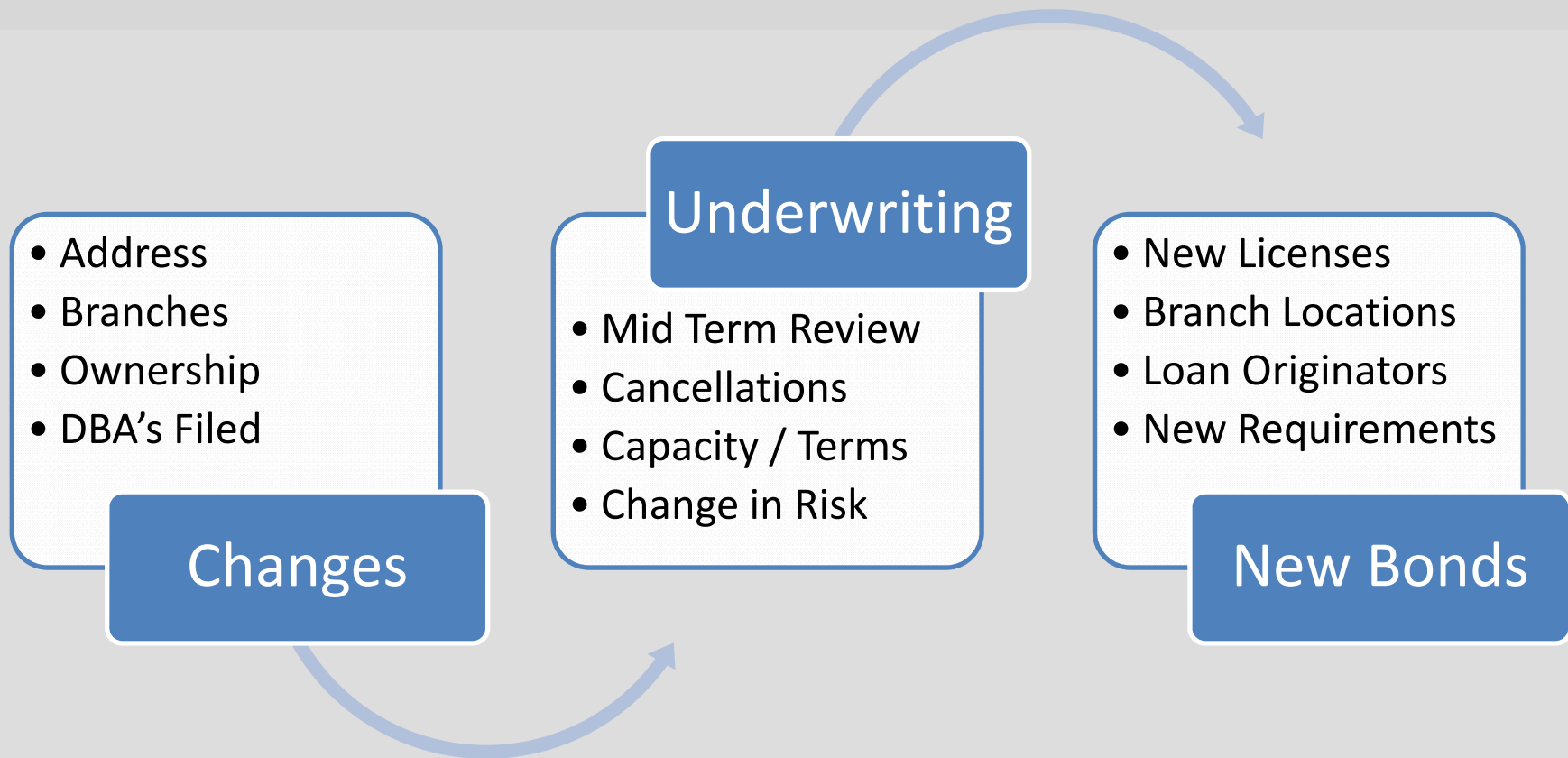
Submission
Package to Surety

Indemnity

Terms of
Approval



Bond Maintenance



Annual Underwriting Review



- Updated Financials
- Distribution vs. Net Income
- Tangible Equity & YE Profitability
- Compliance Issues
- Change in Business or Personal Credit
- Material Change in Risk
- Bond Claims or Trends



What Your Agent Should Do



Package the Submission



Discuss Plans for Upcoming Year



Advise of Industry Change or Potential Risks



Seek Out the Best “Solution” for Your Situation



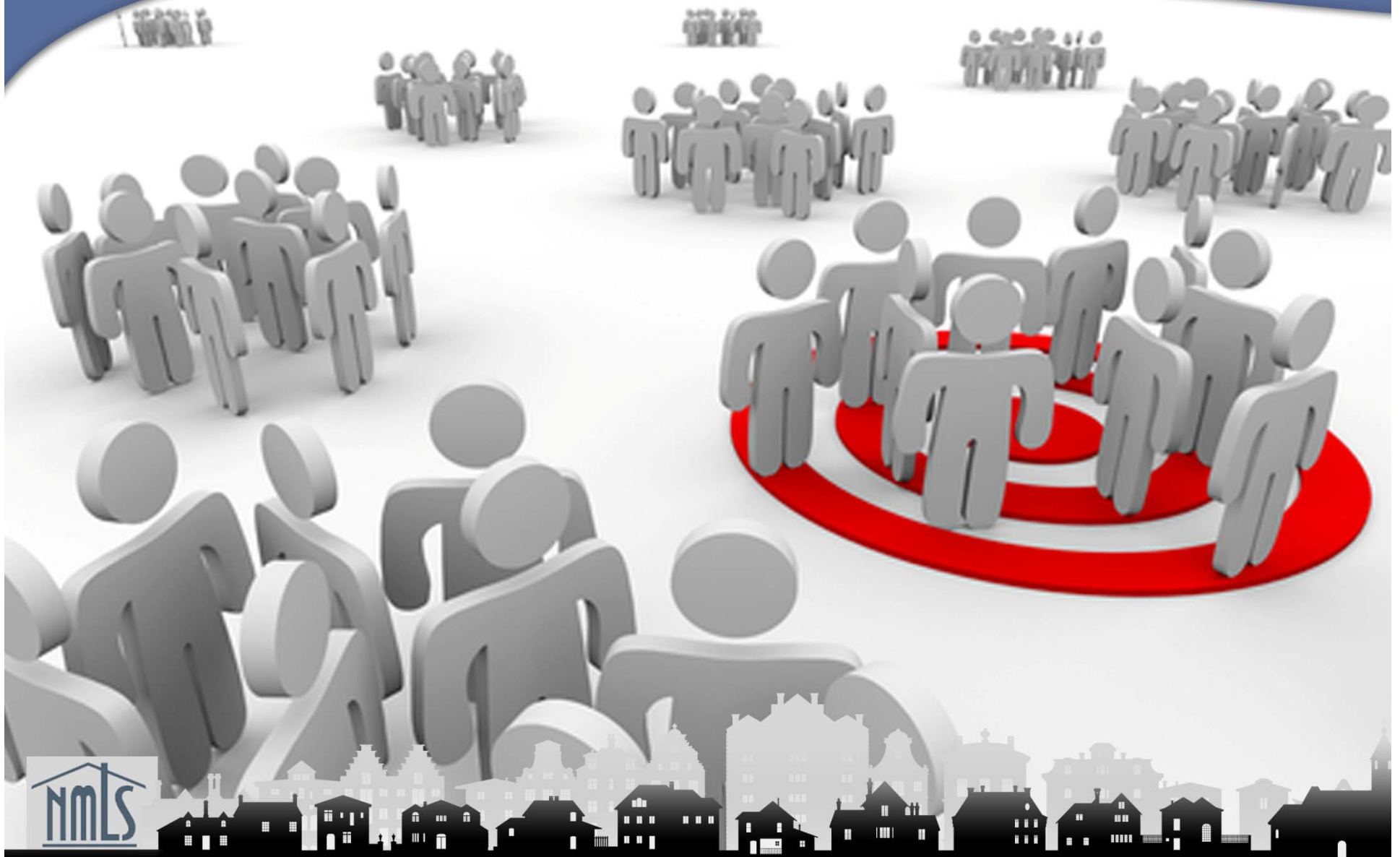
SAFE Act & The Impact Today



- NMLS Renewal Checklist
- New Bond Forms
- Addendums / Certifications
- Volume Reports
- Compliance Issues



Claims and Risk Management



Claims Process



The Rights
and Duties of
Obligee



The Rights
and Duties of
the Principal

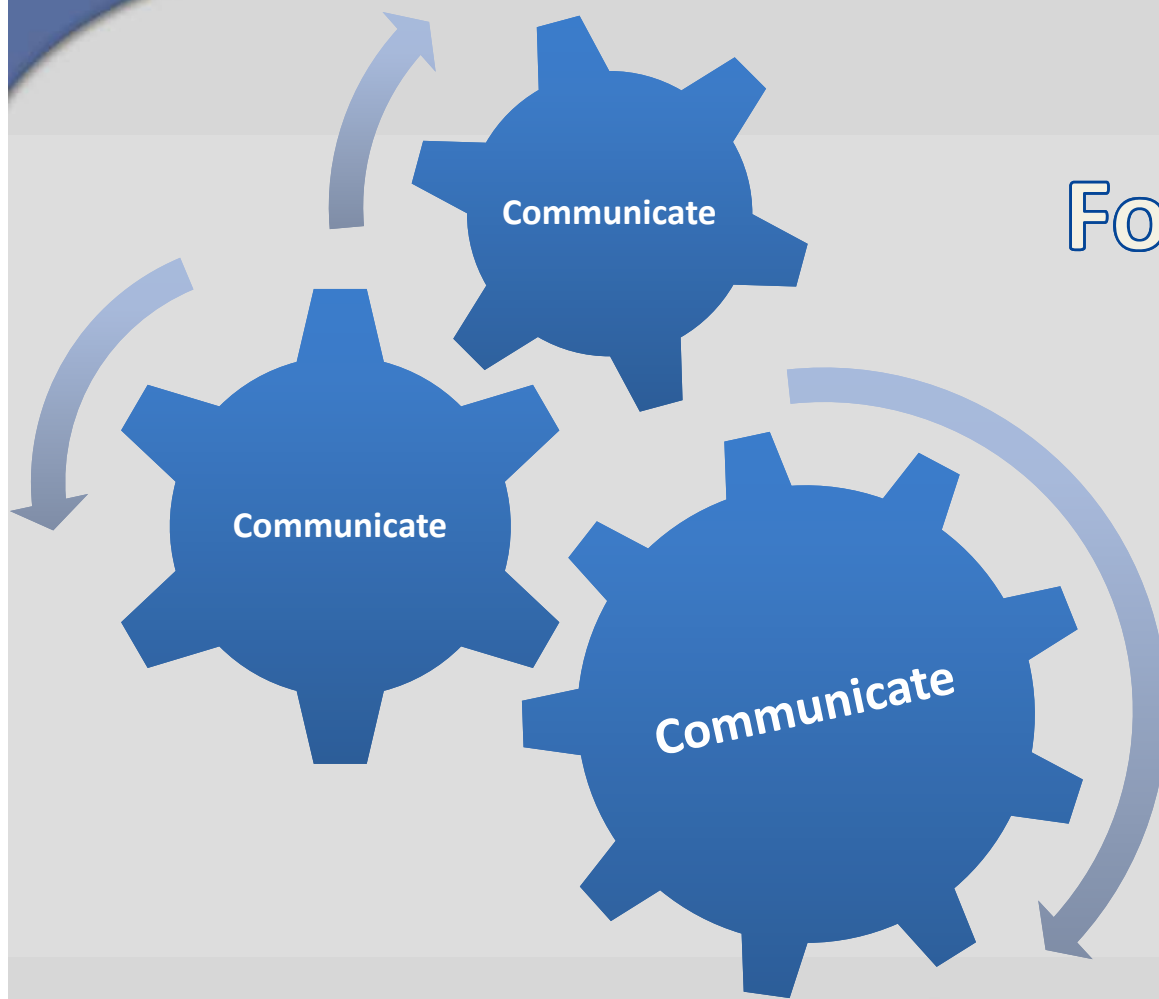


The Rights
and Duties of
the Surety

- Cause & Effect -



How to Successfully Handle a Claim



Follow the
Statutes Rules
&
Guidelines



Claims and Risk Management



- Bonds Used as Recovery Vehicles
- Bonds Used as Revenue Sources
- Impact of Claims
- How to Mitigate Risk
- Specific Language used in Bond Forms & Statutes



Recovery vs. Revenue



Recovery

- To protect against actual loss
- To make whole or restore
- Not seen as an adverse action by the Surety



Revenue

- To seek profit above the actual loss or injury
- To incur interest or fines in addition to the loss
- Obligation becomes high risk with adverse actions



Impact of Bond Claims



Licensee | Entity | Individual

Obligee | Bond Type

Surety | Bond Market



How to Mitigate Risk



- Education
- Errors & Omission w/ Sub-limits for Compliance Matters
- Registered Agent Service After Closure
- Dissolution or Surrender of Licenses
 - Annual Reports
 - Year End Filings or Fines
 - State Audits



The Future of Bonding?



- Using Technology for the Surety Bond Requirement on NMLS
- Increased communication with Obligee and Bond Requirements
- Adverse Bond Selections
- Economic Changes & Adjustments to Bond Requirements
- The Future of Mortgage Bonding is dependent upon the People in this Room



Conclusion



- Out of your three questions, how many did we answer?
- Do you have any specific questions or concerns that you would like to discuss?

