

Sure Talk

Babb Bonding, Inc.

Sure Talk January 2010
Volume 1, Issue 1

GOOD-BYE 2009!

The year 2009 will be remembered as a *"time to adjust the way we do business"*. Not only in the construction industry, but the entire world economy has seen an impact. There have been fewer projects accessible, long bidder lists, less profit obtainable, and projects postponed or canceled. There was a lack of construction funding and the banking industry is trying to keep its head above water. Some contractors are taking work with no profit thinking they can survive.

Profits for sureties have been good thru the first part of 2009, but since the second half earnings are down due to too few projects and what is available has been small

Others Opinion

There are several professions that service construction companies. Each one is affected by the construction industry. The amount of construction affects supplies and materials purchased and

dollar. Most contractors had profits in 2008 with work carrying into 2009. While that work was coming to an end there were few projects to replenish the schedule. The work that was available was mainly schools and infrastructure. The residential contractors started looking into the commercial bid market along with the contractors whose main revenue came from negotiated projects. There became many bidders on what was available. Prices started coming down and the bids for the work were cheap.

From the architect to the supplier to the surety to the owner to the CPA to the tax collector, everyone is affected by the construction market.

insurance premiums along with the amount of business for Architects and Engineers. That in-turn affects tax revenue.

The next page will provide a sample of what some other professions are

So, what can we do to prepare for 2010? Below are the opinions from different perspectives in the construction industry.

thinking about the upcoming year. Each opinion is based on their service related to construction.

Inside this issue:

| | |
|---------------------------|---|
| Good By 2009 | 1 |
| Others Opinion | 1 |
| What others are saying | 2 |
| Tips to Weather the Storm | 3 |
| Back Page | 3 |

What do they think?

- What are Contractors thinking?
- What are surety thoughts?
- Architects and Engineers?
- What the CPA has to say.

What are the contractors thinking

Contractors see 2010 as a continuation of the last half of 2009. There are still projects available, but most are school projects or infrastructure projects that have stimulus money.

Subcontractors that can bond have a good opportunity due to the construction management route taken by many schools. The larger contractors are making changes with the hopes of being able to compete on

smaller projects. Some are planning to build relationships with minority contractors in order to gain opportunities for government work.

There have been several new startup companies. These owners are optimistic about finding work and many are doing well, as long as overhead is low.

All contractors know the key to achieving success is to keep overhead low, use the relationship with architects

and engineers, banker, and bonding agent, and keep knocking on doors. The contractors are finding out how beneficial maintaining a bond program can help in lowering competition and continuing their accomplishments.

Bonding Outlook – What are the surety's thoughts?

Since Sept 11, 2001, insurance has had to deal with many losses; 9/11, at least eight Cat 3 or higher hurricanes, wildfires, and crop losses, etc. Through all that the sureties have managed to have a couple of years with good profits. Now, the sureties are preparing for less profit and more claims, with the larger companies seeing the biggest brunt. Standard companies expect a decrease in business while non-standards see an increase.

The rules of surety are expected to be followed more strictly.

Contractors will need to be sure that their financials are prepared correctly and on time. More information may be required to maintain the bond program, including more financial info, updated work-on-hand, job cost breakdowns, etc. Contractors will need to be prepared to explain bid spreads. The banking relationship will become very important, also.

“Those with debt obligations, they need to look at how they are going to manage their debt payments”, said Joe Stawowy of Granite Re, Inc.

Bonding subs, using escrow, posting collateral, or the SBA program, may be used more often to increase bonding power.

The main focus should be to manage the company overhead and keep credit reports clean.

Architects, Engineers, and CPA's Opinion

CPA's are closely involved with construction companies. The contractors that have maintained the cost cutting measures should do well. They are also seeing less profit added to jobs. With ten percent retainage being held it is hard to make it on two percent profit. More statements may be required through out the year. Sureties have already asked

for quarterly and sometimes monthly financials. Large contractors may be required to upgrade from a review to an audit.

Engineers have some optimism. There are signs of project openings with a slight backlog. “Our projections remain thin on work load until April-May, starting an upward trend in work load through to October”, said

Rick Rogers, CEI Engineer Associates, Inc. The construction industry will lag somewhat until the plans and funding is available. Some developers are taking advantage for future plans once the banks make loans. Distressed properties are available with some good deals and many developers are pushing for rehab and expansion.

“Our projections remain thin on work load until April-May, starting an upward trend in work load through October”, said Rick Rogers, CEI Engineer Associates, Inc.

Tips to Weather the Storm

Babb Bonding, Inc.
PO Box 6255
801 E. Kiehl Ave
Sherwood, AR 72124
www.babbbonds.com

Contacts:
Alan Rogers
alan@babbbonds.com

Kim Babb
kbabb@babbbonds.com

Miki Rogers
miki@babbbonds.com

1. For the general contractors that have specialty crews don't be afraid of bidding as a sub for the work you do in-house.
2. Do not waste time and effort bidding on projects you know have little or no profit.
3. Upgrade the financial presentation. Sureties cannot receive too much information.
4. Work hard to collect over due receivables.
5. Maintain the cash position. Rent or lease equipment when

- needed. Every dollar spent reduces bonding by ten dollars.
6. Cut all overhead that is absolutely not needed. It may be easier to replace than to maintain.
7. Be prepared to provide a business plan, especially if there have been multiple years with losses.
8. Let the surety know if there are additional funds

- that can be added into the company.
9. Do what is needed to pay subs and supplier on time. Maintain a clear credit report. Joint check if there are any questions.
10. Be prepared to bond subcontractors. This will not diminish the surety exposure, but can help the principle with piece-of-mind.

There are many construction organizations that provide an opinion of what to expect. The AGC has a good piece on 2010 at <http://constructoragc.construction.com/mag/2010/Jan-Feb/1001-IndustryOutlook.asp>. The AGC can see a slight upward trend in residential. That means commercial will slowly follow.

Surety companies are preparing for a tough year. What is consistently being said is the need to have more information to write bonds. A bond program is just like a tool or piece of equipment, routine maintenance is required in order for it to be ready when bonds are needed.

Babb Bonding, Inc. has been supplying bond programs to contractors for 40 years. We work with each contractor to provide suggestions to assist in their bond program. Whether it's for an insurance agent, surety agent, contractor, architect, engineer, or CPA, Babb Bonding can assist with getting a contractor to more bid lettings.

We intend to produce this newsletter on a quarterly basis. Suggestions are greatly appreciated.

Check out our website www.babbbonds.com to learn more about us.

Innovating Way's to Help Contractors Exceed Their Goals!

The Back Page

Some interesting Websites;
www.usewildlife.com,
www.patriotguard.org,
www.earthcam.com,
www.jibjab.com

A Texas man walks into an Arkansas café and sits next to an Arkansan at the bar. The Arkansan looks at the Texan and ask what kind of business he is in. The Texan says, 'I am a Cattle Baron. I can get into my truck and drive all day and all night and still not get to the end of property or see all my cows'. The Arkansan places his hand on the shoulder and looks into the Texan's eyes and says, 'I know what you mean. I used

to have a truck like that too.'

If you have a good joke, let me know. You may see it in the next newsletter.

Call us if you need us.

Heb 7:22

Bonds
Are
Babb's
Business



Law of the Work Shop: Any tool, when dropped, will roll to the least accessible corner.