



## Three Action Steps to Maximize Your Bonding Capacity

With the booming economy there are more opportunities for contractors now than in the past decade.

If bonding capacity is holding you back consider these best practices:

### #1 Banking

- Banks are back in the game! Contractors are no longer being shunned by most banks and there is a lot of lending capacity available. When your line of credit renewal comes around always ask for a line increase.
- Use your bank line of credit (LOC) to manage tax liability when paying taxes on a Cash basis. When you pay every invoice you can with the LOC you move the current liability from a payable to the LOC. You reduce taxable income while preserving cash.
- Ask to have your LOC termed out over 36 or 48 months. This “creates” working capital because only the amount due in the next 12 months is a current liability while the remainder drops below the line to long-term. Anything due beyond 12 months is long-term and increases your working capital by that amount.

### #2 Accounting

- Having a “construction-oriented” CPA is critical because “percentage-of-completion” accounting is a unique method that few accountants truly master. Presentation of the financials will go a long way to enhancing your credibility with a Surety underwriter.
- A common mistake we see is that contractors depreciate equipment too quickly in an attempt to reduce taxes while unknowingly destroying their Net Worth. Our advice is to take advantage of tax savings while at the same time using a longer depreciation time line for the financials you show your bank and surety.

### #3 Household Finances

- Maintain your personal finances with the same diligence that you run your business. Late payments on utility bills and other “minor” items can demonstrate a lack of focus to an underwriter which can adversely affect their view of the account.
- Freeze your personal credit. With identity theft rampant in our society today this can really derail a contractor’s ability to grow and take advantage of opportunities through no fault of their own. Be vigilant in protecting your personal credit.

Running a successful construction business presents a host of challenges and opportunities for those willing to pursue the dream. Make sure you are not only working hard but also working smart and surround yourself with quality people to help along the way!

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