



Surety Association of Ohio

Dear Members:

For those of you that were in attendance at our 1st quarter meeting held on 4/14, I mentioned the use of Contractor Default Insurance (aka CDI or SubGuard) and the negative impact it has had and will continue to have on our industry and livelihood.

University Hospitals has almost \$1 Billion in projects bidding over the next 5 years and they have hired Gilbane as the CM at risk. Gilbane will be using CDI to manage their subcontractor risk for those subs that qualify, and those that do not will potentially be required to provide bonds (adverse selection) or will not be able to provide a bid. This will virtually eliminate \$300 million-\$500 million in performance and payment bonds that would have otherwise been issued by our industry.

As a part of the prequalification process, Gilbane will most likely be requiring bondability/good guy letters from our clients. This requirement is in essence stealing our prequalification services/product at no expense to the CM.

To that end, the SAO has drafted a sample bondability/good guy letter that we urge you to use when we are asked to prequalify our clients for Gilbane (or any other CM that uses CDI). Should you be provided with a template letter that the CM requires be printed on your letterhead, we encourage you to also attach a copy of this letter so that the interested parties know our position on the use of CDI as a risk transfer mechanism.

Finally, it is also important to carbon copy the listed parties to get our message across. I have attached their contact information to assist you.

For future reference, this letter will be posted on our website along with a document that compares bonds to CDI.

Thank you for your continued support.

Lou Colagrossi
President