



1960-2010: THE RGC GUARANTEE PROGRAM

**A Comparison with Bonds, Contractor Guarantees,
and Manufacturers Material Warranties**



ROOFING CONTRACTORS
ASSOCIATION OF
BRITISH COLUMBIA

www.rcabc.org



INTRODUCTION

For fifty years (1960-2010) the RGC Guarantee Program has been the premier roofing guarantee program in British Columbia. It is an accomplishment unparalleled in the construction industry. The members of the Board of the Roofing Contractors Association of BC (RCABC) have taken a conservative “long view” approach to quality assurance by designing a program built on standards, quality materials that meet national and international standards, and a system of third party independent inspection that assures objective oversight.

The current resurgence of other warranty programs in the roofing industry, which proponents suggest are equal to the RGC Program, means that this is an appropriate time to compare the RGC Program directly with maintenance bonds, as well as bonds issued in combination with contractor guarantees and / or proprietary manufacturer material warranties. Guarantees for material and workmanship are provided to building owners to assure them that the work performed, as well as material supplied, meets an acceptable industry standard. If not, the warranty assures that application deficiencies will be remediated and / or defective material will be replaced at little or no cost to the owner. Warranties are generally offered as 5, 10 or 15 year blocks. The aim is to instill confidence in the workmanship and the performance of products used for construction purposes.

The following information is provided to inform building owners, specifiers, contractors and consumers about the differences between the RGC Guarantee Program and its imitators. In particular, it is an attempt to dispel bonding myths, as well as to clarify any misconceptions associated with bonding, contractor guarantees, and material warranties that are currently offered in the roofing sector. The information regarding non-RGC products has been obtained through our review of the marketplace, and we invite you to confirm the facts in relation to these products.



CLARIFYING SURETY (BONDING)

Surety is a credit instrument known as a bond guarantee. It is not insurance. A firm, called a “surety company,” guarantees that a business, called a “principal,” will carry out an obligation to a third party, called an “obligee.”

Two examples of such obligations include:

- > a roofing contractor constructing a roof according to the contract specifications for the owner
- > a firm supplying goods within a predetermined time frame to a third party

If the principal (contractor) does not fulfill its bonded obligation, the obligee (owner) can make a claim demanding that the surety company satisfy the obligation or pay the bond penalty. The surety company has the right to reimbursement from the principal in the case of a paid loss or claim.

In some instances a specifier requests a “5 or 10 year RGC Guarantee for workmanship and materials” or “equivalent coverage by supplying a manufacturer’s warranty, a company guarantee and a bond.”

A BOND IS NOT INSURANCE, NOT A WARRANTY, AND NOT AN ORGANIZED GUARANTEE PROGRAM COMPARABLE TO THE RGC GUARANTEE PROGRAM.

Whenever an alternative warranty is offered, the question that owners and / or their representatives should ask is, “Is the alternative really equivalent to the RCABC Guarantee Program?”

For the purposes of this discussion, there are two types of bonds: performance and maintenance. Whereas a performance bond terminates with substantial completion of a contract, a maintenance bond (like an RGC Guarantee Certificate) commences at this juncture. In order to compete with the RGC Guarantee Certificate, it has been implied that the term of a maintenance bond can easily be extended to 5, or even 10 years.

In our survey of sureties in Canada, maintenance bonds typically cover only 1 year (occasionally 2 years) and under exceptional circumstances an extension may be given, but only at the exclusive discretion of the surety. We have found no occasion where an extension has been given at the demand of the specifier.

Currently in British Columbia, a major Canadian surety provider requires an inspection report from an RGC Accepted Inspector (to assure the surety that the work has been completed to RCABC Standards) before issuing a maintenance bond for the completed work.

THE RGC GUARANTEE PROGRAM SIMPLIFIED

- > 5 and 10 year coverage for workmanship and materials
- > qualified “Red Seal” roofers working for professional roofing contractors
- > independent “Accepted” inspectors (neither they nor their firms are RCABC Members and do not pay dues to the association), preferably selected by the owner
- > 2 year re-inspection on 5 year guarantees; 2, 5 and 8 year re-inspections on 10 year guarantees
- > RGC staff, using a proprietary data base, notify inspection firms when re-inspections are due; reports filed with RGC and provided to the owner
- > technical advice available directly or at www.rcabc.org
- > **RGC Guarantee Standards** – the industry standards for British Columbia
- > **Accepted Materials** – rigorously reviewed to ensure they meet or exceed industry standards
- > **Third Party Guarantee** – enforced for the entire term, backed by RCABC, and not prorated
- > **RGC Guarantee Certificate** – issued only once the work is complete, all work or material deficiencies are addressed, and an “approved” final report is issued (and filed with RCABC) by an independent inspection firm

Unlike other warranties, the RGC Guarantee Certificate can only be issued by pre-approved qualified roofers who have met high standards of service and performance.

THE COST OF AN RGC GUARANTEE IS STRAIGHTFORWARD. IT INCLUDES ALL PROGRESS INSPECTIONS, AND ALL FUTURE RE-INSPECTIONS.

COST OF A BOND

A surety generally charges a service fee based on the contract value to provide 50% or 100% bonding. If a surety incurs a loss under the bond, it expects to recover from the principal. The cost varies depending on the contract value and is charged on an annual basis.

For example, if a 2 year maintenance bond is required on a \$100,000 contract, and we assume the cost to be set at 1% per annum, the cost of the bond will be \$2000. Remember that the notion that bonds are available for a period in excess of 2 years is questionable. Even if an extension is available, it would be up to the contractor to notify the bonding company and request additional bonding.

From our discussions with representatives of the surety industry who work with the construction sector, we understand that 5 or 10 year bonds are not available. If a request is made for an extension (an additional year may be available under exceptional circumstances), they suggest that an RGC Inspection Report would be a pre-requisite.

When comparing all costs, owners and specifiers should be aware that the cost of inspection and administration as well as a price per square foot for a manufactures material warranty would have to be added to the full cost of a warranty.



COST OF THE RGC GUARANTEE

The cost of an RGC Guarantee is straightforward and depends on whether it is a 5 or 10 year term. The cost of a 5 year guarantee is 5.5% of the contract value (3.5% for independent inspection and 2% for guarantee coverage).

The cost of a 10 year guarantee is 8% of the contract value (4.5% for independent inspection and 3.5% for guarantee coverage).

Using the previous example (\$100,000 contract), the cost of the 5 year RGC Guarantee is \$5500 for the full 5 years (or about \$1100 / year). For 10 years, the cost would be \$8000 (or \$800 / year), an even greater saving and certainly worth the peace of mind.

The cost includes all inspections as the work progresses, as well as all re-inspections at 2 years (on a 5 year term), and 2, 5, and 8 years on the 10 year guarantee.

THE RGC GUARANTEE INCLUDES:

- > all the administrative oversight required as the job progresses (receiving, data entry, and filing)
- > notifying the roofing contractor of any deficiencies (recording completion); RCABC holds \$50,000 performance bonds on probationary members (2 years) and \$25,000 bonds on all RCABC Active Members
- > notifying the material manufacturer of any material deficiencies (ensure that defective material is removed and/or replaced); RCABC requires a \$100,000 material bond for all new roofing products accepted in the RGC Guarantee Program
- > administrative oversight required to track the job to completion, and to inform the inspection firm when future re-inspections are due

**MANUFACTURERS
CANNOT ENSURE
THAT A TECHNICAL
REPRESENTATIVE IS
ALWAYS AVAILABLE,
GIVEN THE LARGE
TERRITORY FOR
WHICH THEY ARE
RESPONSIBLE.**



CONTRACTORS GUARANTEES

While surety firms generally assign a ceiling for any contractor on the amount of bonding outstanding at any one time – often limiting the ability of a contractor to bid while waiting for other tenders to be awarded – many contractors opt to issue a company or “letterhead” guarantee, which states that the job is “guaranteed for X years.” Generally, whenever a contractor’s guarantee exceeds five years, the bonding firm will reduce his bonding ceiling. If the bonding company, a company not in the business of incurring financial loss, is concerned about reducing a contractor’s ceiling, why would an owner accept less than a surety?

MANUFACTURER WARRANTIES

Manufacturer warranties vary, but are usually based on a cost /sq.ft. In some cases, such warranties are provided in conjunction with RGC accepted inspectors or they may rely entirely on the manufacturer’s technical representative to report on the quality of the workmanship.

Unfortunately manufacturers cannot ensure that a technical representative is always available given the large territory for which they are responsible.

Finally, a manufacturer can sell to any roofing contractor provided they have completed a 2 or 3 day familiarization course. There is no requirement that the installer be a certified Red Seal Roofer and / or belong to a Provincial Roofing Contractors Association.



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