What Is a Surety Bond for Freight Brokers? Things to Know

Freight brokers have been an essential part of the shipment economy for many years. With the high demand for the job, it has become a lucrative and profitable career option for many. Consequently, you may have decided to start your career as a freight broker or even establish your freight brokerage.

But there are several important things you should know, including the risks involved and all the different ways freight brokers can deal with them. First, let's review the basics and what a surety bond is.

Who Is a Freight Broker?

A freight broker is a middleman who protects both parties in the shipping industry from probable damages. If you become a freight broker, you will be in charge of connecting shippers and carriers and coordinating the shipment of goods from one place to another.

You will work with clients to determine their shipping needs and then find the best carriers who can transport their goods accordingly. You have to make sure that the goods will arrive at their destinations on time and without any issues.

It is important to realize, however, that although working as a freight broker can be a lucrative business, there are also some risks involved.

For example, there is always the possibility of dealing with fraudulent clients or carriers and not getting your desired result. So, if you are not careful, you may end up losing money or even getting sued.

Now what? What should you do? Should you stop thinking about becoming a freight broker, or can you do anything to reduce the risk?

Of course, there is! One of the first and most crucial steps in becoming a freight broker (or starting a freight brokerage) is to get your surety bond.

Keep reading this article to find out the different types of surety bonds, learn what is a surety bond for freight brokers, and all other necessary information that you might need in the process. Don't forget to check our blog post if you're interested in learning more about how you can hire freight brokers.

What Is a Surety Bond?

Let's start with the definition of a surety bond, and then we will discuss freight broker surety bonds.

A surety bond is a type of insurance that protects the person or business that holds the bond, known as the obligee, from financial losses that are caused by the actions of another party, known as the principal.

The principal is typically a contractor who has been hired to complete a project, and the obligee is usually the company that hired the contractor.

Suppose the principal – in our case, the freight broker – fails to do their task according to the terms agreed upon, such as not completing the project on time or within budget. In that case, the surety company will cover and compensate for the losses.

As surety bonds provide protection for both businesses and consumers, they are considered an important part of any business. All in all, they provide peace of mind for both conductors and those who are hiring contractors.

Now let's cover the surety bond in the trucking industry.

Different Types of Surety Bonds for Freight Brokers

There are two types of surety bonds that a freight broker must obtain: the BMC-84 (or freight broker bond) and the BMC-85 (or trust fund.)

The BMC-84 freight broker bond is a surety bond that guarantees the payment of carriers in the event that the broker fails to do so. The bond is covered by annual fees and processed by a surety company.

The BMC-85 trust fund is another type of surety bond that is covered via collateral and processed by a government agency instead of a surety company. Both types of bonds are important for protecting shippers from financial loss when their broker does not pay for transportation services.

Soon, we will go through all the details about freight broker surety bonds.

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Surety Bond for Freight Brokers - Are They Any Different?

When you want to get or renew your license as a freight broker, the first question that pops into your mind is, “Are surety bonds for freight brokers any different?”

Surety bond for freight brokers is a type of insurance that ensures the third parties that fright brokers will pay the funds and uphold ethical standards. In other words, the surety bond protects the third party from loss due to the freight broker's failure, late payment, or dishonesty.

To wrap up what we’ve mentioned about broker surety bonds so far, a surety bond is a contract between three parties: [the principal (freight broker)](), the obligee (The Federal Motor Carrier Safety Association or FMCSA), and the surety (the insurer).

How Does a Surety Bond for Freight Brokers Work?

After knowing “what is a surety bond for freight brokers,” you may get confused about how it works.

You should pay some money as a safety net every year to get a surety bond. The amount of the bond is typically set by the federal motor carrier safety administration and must be renewed every year. The obligee will not let you work without a surety bond.

If you, as the freight broker, fail to pay the carriers or deliver the goods, the customer can make a claim against you. The surety company that issued the bond will then review and investigate the case and, if it is valid, pay the customer up to the total amount of the bond.

Then the freight brokerage must repay the cost of the claim to the insurer.

The amount of coverage offered by a surety bond for freight brokers varies depending on different factors, but it is typically a percentage of the total value of shipments brokering annually.

Who Does a Freight Broker Bond Protect?

A freight broker bond is a type of surety bond that is required by the FMCSA for all freight brokers. This kind of surety bond is aimed at protecting motor carriers who are in charge of transporting goods.

In practice, this bond protects them from financial loss in case the freight broker fails to pay for their services or does not comply with regulations.

The freight brokers will also reap benefits from having a surety bond. As you know, a freight broker’s job is to connect shippers with carriers, and if he fails in doing so, it means he fails in his job.

When a freight broker accepts to participate in a bond agreement, more carriers will be willing to work with him, as they can be rest assured that they will be paid anyway. Therefore, a freight broker with a surety bond can make connections easier.

When Do You Need a Freight Broker Bond?

You know what a surety bond for freight brokers is, but you may wonder when and why you need it.

There are many situations in which why you might need a freight broker bond.

The first and most common case is when you are starting a new business and need to get bonded in order to get your broker's license.

You will also need a surety bond when your current bond is about to expire and you need to renew it.

Whatever the reason, it is important to understand that a surety bond for freight brokers is a necessity in this job, and the Federal Motor Carrier Safety Administration will require you to have a bond in place before you can operate.

What Do You Need to Get a Surety Bond for Freight Brokers?

As previously mentioned in this article, getting a broker surety bond is necessary to work as a freight broker. But there are also three requirements that brokers must obtain in order to become qualified for getting a bond:

1. An operating authority from the FMCSA: Firstly, an operating authority must be obtained from the Federal Motor Carrier Safety Administration. Without an operating authority, businesses will not be able to operate legally.
2. Public liability insurance: Public liability insurance is also necessary in order to protect against any potential damages or unforeseen accidents that may occur during the business procedure.
3. A BOC-3 form from the FMCSA: Finally, a BOC-3 form, which is a federal form in the United States, must be filled with the FMCSA for any company that operates interstate businesses. The BOC-3 form ensures that businesses are properly registered and are in compliance with all regulations.

Meeting these requirements is essential for becoming a successful freight broker and getting a surety bond. So, make sure to get them all before applying for a freight broker surety bond.

How to Get a Surety Bond for Freight Brokers?

As it was mentioned before, all freight brokers are required to have a surety bond in order to operate. Here, we will elaborate on the things you need to know about getting a surety bond for your freight broker business.

The first thing you need to do is to find a surety company that offers bonds for freight brokers. You can typically find these companies through an insurance agent or Google search.

Once you have found a few companies, compare their rates and coverage options and see which one has the lowers rates and is the best fit for your needs.

After choosing a surety company, you will have to fill out their application and answer some questions about your personal and financial information.

The surety company will then review your request and decide whether or not to approve you and your company for a bond.

After getting accepted by the insurer, they will calculate and announce the premium price that you have to pay. At that time, your bond is active, and you can start working as a freight broker with a surety bond.

How Much Does a Surety Bond for Freight Brokers Cost?

While searching about “what is a surety bond for freight brokers?” an important question may come to your mind, and that’s the matter of costs. It’s only natural to wonder how much a freight broker surety bond costs.

The short answer is that the broker surety bond’s cost is a small percentage of the total freight broker’s bond amount, which is $75,000. Here is a more detailed explanation of how the cost of the freight broker bond is determined:

While all freight bond applications are different from each other and written individually, you can determine the exact percentage of the cost by paying attention to three factors:

1. The business owner’s credit score. The higher your credit score, the lower the percentage of your premium cost will be. For example, if you have a perfect credit score, you can expect to pay around 1-2% of the total bond amount for your premium. But if you have a poor credit score, you may have to pay as much as 10%.
2. Business experience. The cost of the freight broker bond is also determined by the business experience of the company or broker. The more experience a broker has, the lower the bond's cost.
3. The financial strength of the brokerage. Lastly, the stronger the financial position of the brokerage, the lower the cost of the bond will be.

Whatever the price, if you are serious about becoming a freight broker, you must pay for the surety bond. The bond cost is worth it when you consider the potential earnings you could make in the industry.

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Surety Bond Rules Changed by FMCSA

The Federal Motor Carrier Safety Administration revises the rules and procedures related to surety bonds each year. If any of them needs to be changed necessarily, the FMCSA will check and revise them. The trucking industry can also request a change.

As surety bonds protect both parties from losses, they are an essential part of the trucking industry. Therefore, it is vital that the FMCSA reviews and updates the rules and procedures related to surety bonds on a regular basis.

Conclusion

If you are a freight broker, it is important to know what is a surety bond for freight brokers and learn about the process of getting or renewing one.

This type of bond can protect your business and your customers in case anything goes wrong. The Federal Motor Carrier Safety Administration (FMCSA) typically requires this type of bond when you register as a freight broker.

If you are considering becoming a freight broker or starting your brokerage, be sure to find the best surety company and check all the information mentioned in this article. Don’t forget to check We Load Trailer’s website and ship your freight on time without having to worry about your cash flow.