



SBA's SURETY BOND GUARANTEE PROGRAM

The U.S. Small Business Administration's (SBA) Surety Bond Guarantee Program, with cooperation from the surety industry, assists small construction companies in obtaining required bonds on federal, state, local, and commercial construction projects and on service and supply contracts and subcontracts. Small and emerging contractors grow by increasing contracting opportunities, especially in public sector construction. Many surety bond companies recognize the importance of providing bonds to small, minority, and emerging contractors and have developed programs to assist them. A list of surety companies and bond producers participating in the SBA program are provided at www.sba.gov/osg.

Surety Bond Guarantee Program Overview

For more than 40 years, the Surety Bond Guarantee (SBG) program has helped small and emerging contractors who have the knowledge and skills necessary for success, but lack the combination of experience and financial strength, to obtain bonds through regular commercial channels. SBA guarantees bid, performance, and payment bonds issued by surety

companies to small and emerging contractors and reimburses the surety a percentage of loss if the contractor defaults. This government guarantee allows sureties to write bonds for contractors who otherwise would not meet their minimum standards—thus providing small and underserved contractors with contracting opportunities for which they would not otherwise qualify.

The SBA Office of Surety Guarantees (OSG) administers the SBG program as a partnership between the federal government and the surety industry. The SBG program consists of the Prior Approval program (Plan A) and the Preferred Surety Bond (PSB or Plan B) program.

Eligibility

In addition to the surety's bonding qualifications, the following SBA eligibility requirements apply:

- Each individual public or private contract or subcontract must be \$6.5 million or less;
- For direct federal contracts, SBA can guarantee a bond for a contract up to \$10 million if a federal contracting officer certifies that SBA's guarantee is

- necessary for the small business to obtain bonding;
- The contractor must qualify as a small business under federal regulations based on their primary NAICS code;
 - The contractor and its owners must possess a good reputation and must not presently be debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from transactions with any federal department or agency.

The SBA guarantees bid, performance, and payment bonds including ancillary bonds incidental to the contract and essential for its performance, as well as maintenance bonds for defective workmanship and materials, provided the term does not exceed two years. A surety company certified by the U.S. Treasury Department to issue bonds (as listed in Circular 570) may apply for participation in the SBG program

Surety underwriting is based on evaluating a contractor's capacity to perform and financial strength. The SBG program does, however, allow participating sureties to consider bonding contractors with capacity or capital that may not meet the company's normal underwriting standards. This often occurs when a surety attempts to underwrite a small emerging contractor.

Sureties often encounter contractors who are just starting their own business. The contractor may not have the financial resources to purchase equipment and meet the capital requirements necessary for standard surety underwriting. The surety must continue to apply the

underwriting guidelines, standards, and qualifications for a standard case, but the SBA guarantee provides additional financial strength to support the contractor's limited capital position or experience.

Prior Approval Program

Under the Prior Approval Program (Plan A), SBA must approve each bond guarantee individually, based on information submitted by the surety. SBA's guarantee percentage is 90% if the contract is \$100,000 or less or if it is awarded to a socially economically disadvantaged, HUBZone, or veteran-owned or service-disabled-owned firm. Otherwise, SBA's guarantee is 80%. The surety bond producer reviews the application package and recommends it to the surety company for approval. If the surety company agrees to issue a bond with the SBA guarantee, the package is forwarded to the appropriate SBA/SBG Area Office for evaluation. If SBA determines that the applicant is eligible, the SBA may issue a guarantee to the surety company. The surety then issues the bond to the contractor. SBA's guarantee agreement is with the surety company on behalf of the small business contractor.

The **Quick Bond Guarantee Application and Agreement** (SBA Form 990A) is for contracts valued at \$250,000 or less and combines the contractor's application and SBA agreement with the surety into one easy-to-use form. This streamlined applications significantly reduces paperwork for both contractors and surety companies participating in SBA's Prior Approval Program and reduces processing time.

Preferred Surety Bond Program

The SBA's Preferred Surety Bond (PSB) Program authorizes selected sureties to issue, service, and monitor bonds without SBA prior approval. The SBA guarantee is 70% in this program.

The select sureties must have a formal plan to graduate PSB contractors into the standard market. To participate in the PSB program, the surety company:

- Must be on the U.S. Treasury List (Circular 570) of acceptable sureties;
- Must have an approved underwriting authority of at least \$6.5 million;
- Cannot have premium income from contract bonds guaranteed by SBA and other government agencies exceeding one-quarter of its total contract bond premium; and
- Cannot delegate its underwriting and claims settlement authority outside of its own employees.

How to Apply

Contractors should contact a surety bond producer who represents a surety company that participates in the SBG program. A list of local-area producers, application instructions, and other program information are on SBA's website at www.sba.gov/osg or can be obtained by calling SBA's Office of Surety Guarantees at (202) 205-6540.

Contractors must complete the following forms, which are available from participating surety bond producers or the SBG program website at www.sba.gov/osg.

912—Statement of Personal History

Must be completed on first application by a proprietor; each partner in a partnership; each officer, director, and/or holder of 20% or more voting stock in a corporation; and any other person who has authority to speak for management. Form 912 must be submitted whenever responses, ownership, or management changes.

994—Application for Surety Bond Guarantee Assistance

Contains specific questions relating to the contractor's business size, type, ability to obtain bonding, minority status, and relationship with the SBA. Additionally, it contains debarment certification and certifications that the bond is required and not obtainable on reasonable terms without SBA's guarantee and the amount of work subcontracted must not be excessive as to interpret the contractor as primarily a broker or packager. This form also contains brief summaries of various federal laws and executive orders that affect the SBA's business and gives applicants notices of these laws.

994F—Schedule of Uncompleted Work on Hand

Required initially and then at least quarterly, this form lists all uncompleted work, both bonded and non-bonded. Other forms may be used if they provide the same information.

The bond amount may not be in excess of the contract amount. Once the forms are completed, the surety bond producer submits them to the surety company, which processes and underwrites the application in the

same manner as any other contract bond application. When the bond is issued, the contractor pays the surety the premium for the bond, which is usually a small percentage of the contract price. The premium cannot exceed the level approved by the appropriate state regulatory body. There is no cost for applying for a bond. SBA charges the contractor a fee of \$7.29 per thousand of the contract amount for payment and performance bond guarantees, but does not charge a fee for a bid bond guarantee.

The SBG program opens new markets to small and emerging contractors. The ability to obtain bonds and the development of a bonding relationship with a professional surety company helps a contractor grow. Once in the program, the contractor learns how to qualify for standard underwriting and benefits from the expert advice and assistance the surety bond producer and surety company offer.

For more information on the SBA program, please visit SBA's website at www.sba.gov/OSG or call (202) 205-6540. Additional information on contract surety bonds is available from the Surety Information Office website at www.suretyinfo.org.