U.S. Small Business Administration

Surety Bond Guarantee Program for Small Businesses
The Basics – What to Look For

• **Contract Surety Bonds:**
  ✓ Contract bonds & why they are required
  ✓ Surety’s underwriting focus

• **SBA Surety Bond Guarantee Program:**
  ✓ Program parameters
  ✓ Required information
  ✓ Application process & fees
Common Definitions

**Principal:** small business/contractor or its owner(s).

**Agent:** representative of the Surety with power of attorney to issue bonds. They market and prepare applications to the SBA and Surety. Principal’s primary relationship is with the agent.

**Surety:** corporate entity legally responsible for paying claims after a Principal has defaulted and SBA’s program partner.

**Obligee:** project owner who contracts with the Principal for the performance of a contract. If the Principal defaults on a project the Obligee is made whole by the Surety.
What is a Surety Bond?

• **Agreement between:**
  ✓ Business/Principal
  ✓ Surety Company
  ✓ Obligee/Project Owner

• **Types of contract surety bonds:**
  ✓ Bid Bond
  ✓ Performance Bond
  ✓ Payment Bond
  ✓ Maintenance Bond
Contract Bonds Defined

**Bid Bond**: guarantees that if the Principal is awarded a contract, the required performance and payment bonds will be provided.

**Performance Bond**: guarantees the contract will be successfully completed in accordance with contract terms and conditions.

**Payment Bond**: guarantees that subcontractors and labor and material suppliers will be paid for their work.

**Maintenance Bond**: guarantees that any defects in workmanship or materials will be remedied within a specified time period following completion, usually one to two years.

Use bonds instead of an ILOC or cashier’s check. Bonds conserve your small business’s working capital and provide you with protection from fraudulent claims.
Surety bonds are required on many projects to ensure that the contracts are properly completed, protecting the Obligee, subcontractors and labor and material suppliers.

**Federal Government:** all Federal construction contracts greater than $150,000 require surety bonds under provisions of the Miller Act

**State, County & Local Government:** most other governmental entities have adopted similar provisions referred to as “Little Miller Acts”

**Private Sector:** many private sector Obligees also require surety bonds
Pre-Qualification & Bonding Capacity

• Pre-qualifying means knowing what your bonding capacity will be in advance of bidding or negotiating to assure bonds will be available

• Becoming bondable is similar to the process of obtaining bank credit
  – Setting up bonding may take several weeks

• Know Your Bonding Capacity:
  ✓ Single Contract Bond Limit (i.e. $300,000)
  ✓ Total Aggregate Bonding Capacity (i.e. $2,000,000)
  ✓ Approved Type of Work
  ✓ Approved Geographical Area
Surety’s Underwriting Focus

• **Technical & Managerial Ability**
  – Track Record – past experience demonstrates ability to perform future projects
  – Typically no more than two times largest successfully completed job to date

• **Financial Resources/Financial Statements**
  – Working capital, net worth, debt to equity ratio, profitability
  • Adequate working capital is essential to obtaining bonding
    – Quality financial statements required
    – CPA prepared typically required for $1 million & larger job sizes

• **Credit Resources**
  – Credit History (business and owners)
  – Banks & Suppliers
What is Working Capital?

• Measures business’s ability to meet current and future financial obligations

• Total bonding capacity typically based on available working capital

• Working Capital is calculated from the balance sheet:
  
  \[ \text{Cash + Accounts Receivable + } \frac{1}{2} \text{ of Inventory} - \text{Current Liabilities} = \text{Allowed Working Capital} \]
Bank Support

A good banking relationship is important to obtaining bonding.

Agent will request information on:

• Accounts
• Cash Balances
• Bank Line of Credit (BLOC)

BLOC - SBA counts the available balance on a BLOC as additional available working capital!
SBA Loans

SBAExpress Loan/SBA Microloan/SBA Community Advantage Loan

✓ Finance short term working capital needs
✓ $50,000 to $350,000 limits
✓ LOCs Available (Express)
✓ Contact a local SBA participating lender to apply
Maximize Your Surety Credit

- Retain profits and build up these important balance sheet items:
  - Working Capital
  - Net Worth
  - Debt/Net Worth

- Prepare quality financial statements
  - CPA Prepared is Preferred – 3 Levels of CPA Financials
  - It’s an Investment in Your Business!
SBA Surety Bond Guarantee Program

SBA guarantee allows small businesses to obtain contract specific bid, performance, payment and maintenance bonds not available elsewhere.

SBA can assist many small businesses including:

- **Start-ups and firms in business less than 3 years**
- Firms with limited track record in prior completed job size
- **Firms with limited financial resources (cash, working capital, net worth)**
- **Firms with insufficient financial presentations**
- Firms with recent losses
- **Firms with some credit issues**
- Firms wishing to increase current bond limits
SBA Surety Bond Guarantees

SBA provides the Surety a guarantee of 70% to 90%, reducing the Surety’s liability for each bond, allowing the Surety to issue bonds to businesses that would not otherwise qualify.

Preferred Program – 70% Guarantee through Surety Line of Authority

Prior Approval Program -

• 90% Guarantee:
  ✓ All veteran owned & service disabled firms
  ✓ Minority owned businesses
  ✓ 8(a) and certified HubZone businesses
  ✓ All projects not exceeding $100,000

• 80% Guarantee:
  ✓ All other small businesses
SBA Advantages

• Available balance on BLOC counted as additional available working capital!

• Total bonding capacity typically double that of traditional surety!

• Exception available for insufficient financial statement preparation!
**Business Size Eligibility**

Business (including affiliates and subsidiaries) must be small for the primary industry it and the affiliates are engaged in

- Based on average annual revenues for the last three fiscal years compared with established NAICS (North American Industry Classification) Codes size standards
  - Construction Firms –
    - **$15 million** for specialty trades such as:
      - electrical (238210) or roofing (238160)
    - **$36.5 million** for heavy construction such as:
      - commercial construction (236220) or highway, street and bridge (237310)
  - Service, supply and manufacturing firms may also be eligible

[www.sba.gov/size](http://www.sba.gov/size)
Contract and Bond Eligibility

• **Maximum Contract Size: $6.5 million**
  - Up to $10 million on Federal prime contracts with contracting officer certification

• **The small business and its owners must:**
  - Certify they need a bond and are unable to obtain it elsewhere with reasonable terms
  - Not be debarred from doing business with the Federal Government
  - Not be on probation or parole or in bankruptcy
  - Must be current on all taxes
Bond Application Package

Additional information may be required based on individual surety requirements.

- Business financial statements
  - Last three fiscal year-ends plus current interim
- Owner’s personal financial statements
- Bank relationship information

**SBA Form 912 - Statement of Personal History**
- Misdemeanors and minor criminal offenses older than 10 years typically cleared

**SBA Form 994 - Application for Surety Bond Guarantee Assistance**
- Job Specific
QuickApp for Jobs Up to $250,000

- **FAST** Approval

- **Relaxed SBA Underwriting**
  - Eliminates Business and Personal Financial Statements for SBA

- All Types of Work Excluding Environmental, Demolition, Timber Sales and Projects Already Underway

- **Liquidated Damages Up to $1,000/Day and Maintenance Terms Up to Two Years**

- Same Guarantee Percentages
Fees for SBA Bond Guarantees

- **Bid Bonds**: No fee

- **Performance/Payment/Maintenance Bonds**:
  - SBA Guarantee Fee: 0.729% of the Contract Amount
  - Surety’s Bond Premium: 1.5% - 3% of the Contract Amount
    - Surety pays SBA 26% of the premium collected from the small business

Include these costs in bid estimates and initial pay requests to ensure reimbursement by the Obligee.
Costs of Bonding Example

A minority-owned small business received an SBA guaranteed bid bond and was subsequently awarded a $500,000 Federal contract to install new energy efficient windows in three buildings at an airbase.

Contractor’s Bond Costs:

- $9,000 1.8% Surety’s Bond Premium ($500,000 X 1.8%)
- 3,645 .729% SBA’s Guarantee Fee ($500,000 X .729%)
- **$12,645** Total Cost for Bonds
Pay.Gov Electronic Fee Payments

- Free Service of the U.S. Treasury
- Register at www.pay.gov
- Eliminates Fee Checks
- Pay SBA Bond Guarantees Online
  - ACH, Debit or Credit Card
Application Process

1. Small business contacts SBA approved bond Agent requesting assistance
2. Agent evaluates application package
3. Agent approaches SBA Surety for approval
4. Agent applies for a bond guarantee to SBA electronically on behalf of small business when required by Surety*
5. SBA staff reviews & approves qualified applications in 3 Area Offices based on the location of the small business
   ✓ currently less than 2 days on average
6. Agent provides bond to the small business so that work may begin

*Participating Sureties may bond a business with or without an SBA guarantee or decline to bond the business if it does not qualify.
Locating an SBA Approved Bond Agent

• Use SBA’s list of Bonding Agencies by State available at: www.sba.gov/osg

• Contact an SBG Area Office or SBA District Office for a referral
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<tr>
<td>Alter Surety Group</td>
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<tr>
<td>Miami Lakes, FL</td>
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<tr>
<td>(305) 517-3798</td>
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<td>Cecil Powell &amp; Co</td>
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<td>Jacksonville, FL</td>
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<tr>
<td>(904) 353-3181</td>
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<td>Miami, FL</td>
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<td>(305) 670-6111</td>
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<td>Security Bond Assoc</td>
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<td>Miami, FL</td>
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<tr>
<td>(305) 552-5414</td>
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<td>Unique Surety &amp; Insurance</td>
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<tr>
<td>Palm Beach Gardens, FL</td>
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<td>(561) 429-3600</td>
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<td>Associates Insurance</td>
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<td>Temple Terrace, FL</td>
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<td>(813) 988-1234</td>
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<td>FSB Agency</td>
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<td>Pembroke Pines, FL</td>
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<td>(954) 323-3587</td>
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<td>Joseph Johnson &amp; Co</td>
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<td>Orlando, FL</td>
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<td>(407) 843-1120</td>
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<td>Smith Insurance &amp; Bonds</td>
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<td>Ft. Meyers, FL</td>
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<td>(239) 560-0137</td>
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<td>Waldorff Insurance &amp; Bonding</td>
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<td>(904) 733-8885</td>
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<td>(850) 478-0400</td>
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<td>Suretegrity</td>
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<td>Ponte Vedra Beach, FL</td>
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<td>(888) 951-8680</td>
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<td>Bowen, Miclette &amp; Britt</td>
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<td>Maitland, FL</td>
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<td>(407) 647-1616</td>
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<td>Florida Surety Bonds</td>
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<td>(888) 786-2663</td>
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<td>Matson-Charlton Surety</td>
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<td>Coral Gables, FL</td>
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<td>(305) 662-3852</td>
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<td>(813) 400-0235</td>
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<td>Heacock Insurance</td>
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<td>(863) 385-5171</td>
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<td>Jacksonville, FL</td>
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<td>(904) 669-0729</td>
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SBG Program Primary Contacts

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Jennifer Vigil
Area Director
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Servicing Small Businesses in:
CO, IL, IN, IA, KS, MI, MN, MO, MT,
NE, NJ, ND, OH, PA, SD, UT, WI,
WY, Puerto Rico & Virgin Islands

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Servicing Small Businesses in:
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LA, NV, NM, NC, OK, OR, SC, TX,
WA & Guam

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Peter C. Gibbs
OSG Deputy Director
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Servicing Small Businesses in:
AL, CT, DC, DE, KY, MA, MD, ME,
MS, NH, NY, RI, TN, VA, VT & WV