



Surety Information Office (SIO)

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The Surety Information Office (SIO) is the information source on contract surety bonds in public and private construction. SIO offers complimentary brochures and CDs and can provide speakers, write articles, and answer questions on contract surety bonds. SIO is supported by The Surety & Fidelity Association of America (SFAA) and the National Association of Surety Bond Producers (NASBP). All materials may be accessed at www.sio.org.



The Surety & Fidelity Association of America (SFAA)

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The Surety & Fidelity Association of America (SFAA) is a District of Columbia non-profit corporation whose members are engaged in the business of suretyship worldwide. Member companies collectively write the majority of surety and fidelity bonds in the United States. SFAA is licensed as a rating or advisory organization in all states, as well as in the District of Columbia and Puerto Rico, and it has been designated by state insurance departments as a statistical agent for the reporting of fidelity and surety experience. SFAA represents its member companies in matters of common interest before various federal, state, and local government agencies.



National Association of Surety Bond Producers (NASBP)

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The National Association of Surety Bond Producers (NASBP) is the international organization of professional surety bond producers and brokers. NASBP represents more than 5,000 personnel who specialize in surety bonding; provide performance and payment bonds for the construction industry; and issue other types of surety bonds, such as license and permit bonds, for guaranteeing performance. NASBP's mission is to strengthen professionalism, expertise, and innovation in surety and to advocate its use worldwide.

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.

SBG Program Overview

For more than 30 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 would not otherwise 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:

- The contract must be \$2 million or less;
- The contractor's business must qualify as a small business under federal regulations;
- For federal contracts, a contractor must meet the small business size standard for the North American Industry Classification (NAICS) codes selected for the procurement by the contracting officer. For all other contracts, a construction or service contractor's average annual receipts (including affiliates) for the last three fiscal years cannot exceed \$6.5 million;

- The contractor 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 whose capacity or capital 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.

The Prior Approval Program (Plan A)

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 and 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.

Preferred Surety Bond (PSB) Program

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

These 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 \$2 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 for both electronic and paper submissions, and other program information are on SBA's Web site 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 SBG program Web site 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.

991—Guarantee Agreement Addendum

Necessary only if the bond is issued after work has begun on the contract. SBA defines work in progress on the job as having begun when a contractor takes any action at the job site that exposes its surety to liability under applicable laws. Such actions include the purchase and/or delivery of material or actual construction.

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 to 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 so 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 bond producer and surety company can help a contractor grow. Once in the program, the contractor can learn how to qualify for standard underwriting and benefit from the expert advice and assistance the surety bond producer and surety company can offer.

For more information on the SBA programs, please visit SBA's Web site at www.sba.gov/OSG/ or call (202) 205-6540. Additional information on contract surety bonds is available from the Surety Information Office Web site at www.sio.org or call (202) 686-7463.

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