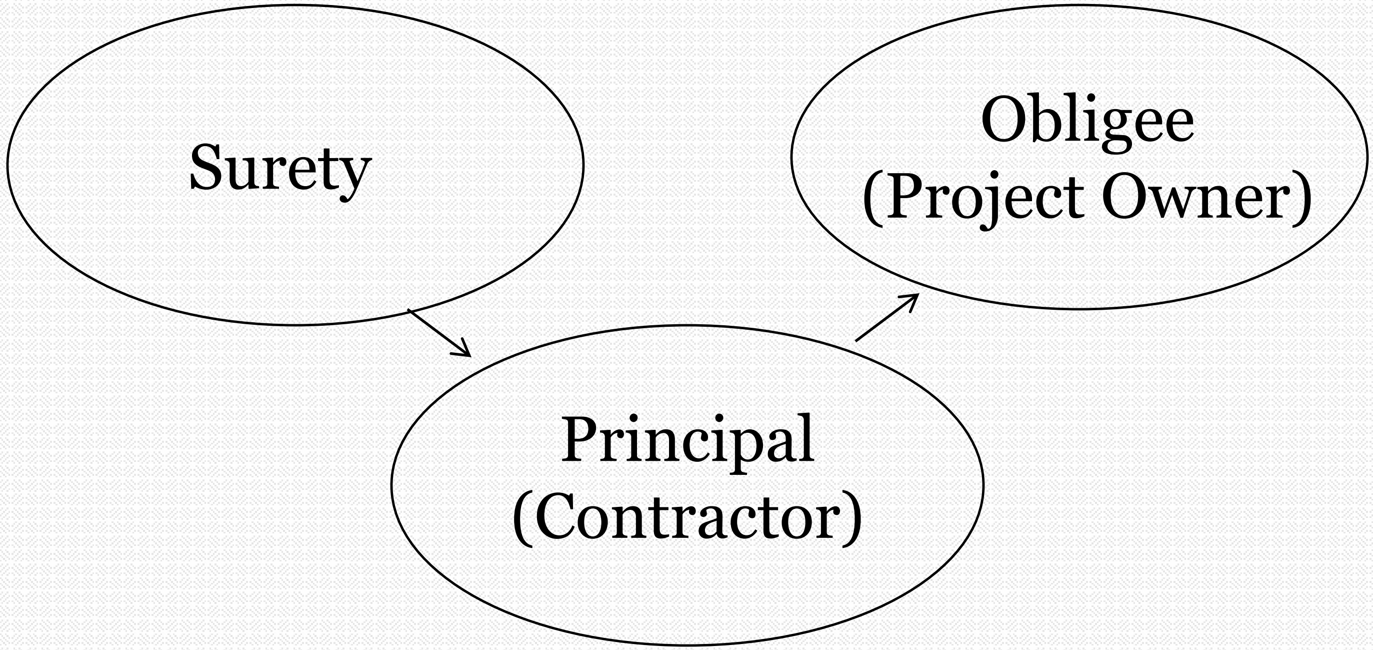
U.S. Small Business Administration
Surety Bond Guarantee Program

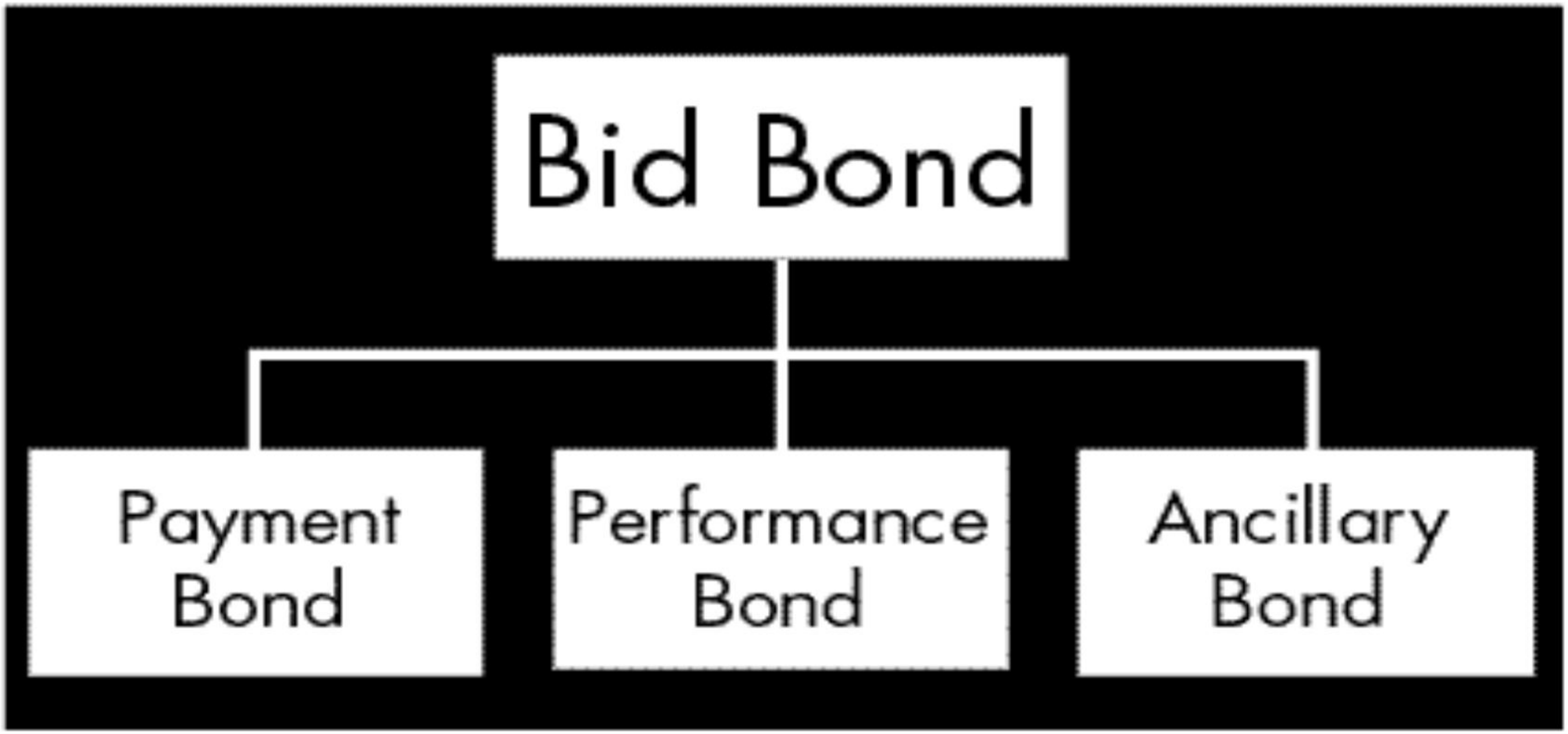
“Opening the Door to Bonding”

What Is a Surety Bond?

A three party written agreement between the surety, the contractor and the project owner.

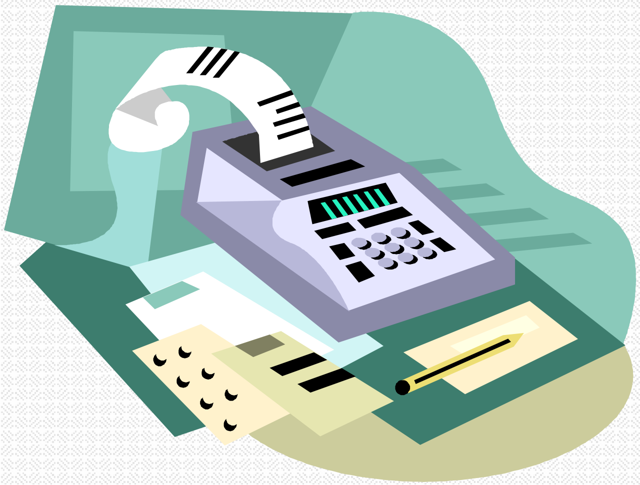


Typical Contract Surety Bonds



Bid Bond

Guarantees to the obligee that the bidder will enter into the contract and furnish the required performance and payment bonds on a project



Performance Bond

Guarantees to the obligee that the contractor will perform the contract according to its specifications, terms and conditions

Payment Bond

Guarantees to the obligee that the contractor will pay all subcontractors and suppliers furnishing labor and/or material on the project

Maintenance Bond

Guarantees to the obligee that the contractor will remedy any defects in workmanship or materials for a specified term

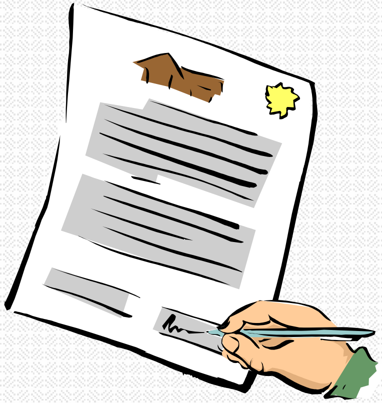
Who Needs Bonds?

Contractors, subcontractors and suppliers

- Most sizeable public construction projects and some service contracts require bonds
- The Miller Act requires prime contractors on Federal projects valued at $100,000 or more to post bonds
- Many states, counties and municipalities have established "Little Miller Acts"
- Many private sector projects and subcontracts also require bonds

What Happens if a Contractor Defaults?

Surety requires execution of a General Indemnity Agreement securing reimbursement from the contractor and its owners and spouses for any claims paid



- Bid Bond - If the contractor fails to enter into the contract or provide required bonds, the surety is liable to the obligee for the difference between the contractor's bid and the bid of the next lowest bidder

What Happens if a Contractor Defaults?

- Performance Bond - If the contractor fails to properly perform the contract, the surety is required to remedy the default
- Payment Bond - If the contractor fails to make payments to subcontractors, laborers and/or material suppliers, the surety pays valid claims
- Maintenance Bond - If the contractor fails to cure any defects found during the period of coverage under the bond, the surety will remedy the default

OSG History & Purpose

In 1971 SBA launched the Surety Bond Guarantee Program to assist small, emerging and disadvantaged contractors obtain greater access to contract opportunities through bonded projects via an SBA guarantee

What Is an SBA Surety Bond Guarantee?

- An agreement between a surety and SBA where SBA agrees to assume a percentage of loss in the event a contractor breaches the terms of their contract

- SBA's guarantee strengthens a small contractor's ability to compete and secure bonded work

How Can SBA Help Small Contractors Obtain Bonding?

- SBA guarantees bonds written by any surety approved to participate in the program and listed in U.S. Treasury Circular 570

- SBA provides a 70%, 80% or 90% guarantee through two separate programs

  The Prior Approval Program, administered by two Area Offices, provides either an 80% or 90% guarantee based on the contractor's demographic information. The Preferred Surety Bond Program, administered by SBA HQ in Washington, DC, provides a 70% guarantee.

What are the Eligibility Requirements?

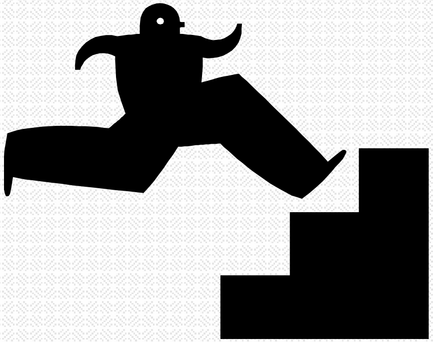
- The applicant must be a small business

  Average annual revenues for the past 3 years (or number of employees for manufacturing firms) cannot exceed the small business size standard established for their primary NAICS code as outlined in 13 CFR 121.201

- The contract must require bonds

- The contract cannot exceed $2 million in size

Steps to Obtaining SBA Bonding



- Contact an Agent

  An agent is a person who has power-of-attorney to write bonds on behalf of a surety company

- Provide the agent with evidence of credit, capacity, character and SBA required forms

What Information Will the Agent Request?

- Contractor Questionnaire
- Current Business Financial Statement
- Business Financial Statements for the Last Three Fiscal Years
- Personal Financial Statements
- Previous Contract Performance History
- Work in Process
- Bank Reference Information

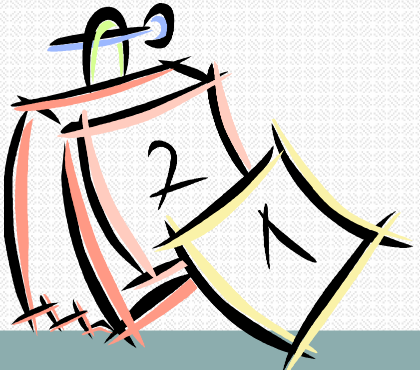
How Are Applications Processed?

- The agent reviews the contractor's application package and recommends it to a surety for approval
- The agent forwards an electronic application and complete application package to an OSG Area Office if the surety agrees to bond the project with SBA's guarantee
- SBA issues a guarantee to the surety when an application is determined to be qualified
- The agent executes the bond

How Long Does the SBA Bond Process Take?

- Agent and Surety require time to evaluate the contractor's information prior to submission to SBA

- SBA Office of Surety Guarantees has established a goal for processing applications within an average of four (4) Federal working days



What Costs Are Involved?

Surety Charges

- The surety charges the contractor a premium for performance, payment and ancillary bonds based on the rates approved in the state where the job is located, usually between 1.5% and 3% of the contract amount

SBA Charges

- Contractor's fee of .729% of the contract amount for each final bond guarantee

- SBA does not charge a fee for a bid bond guarantee

FY2010 Results/Pending Legislation

FY2011 Guarantees	8,636	$3.682 Billion
FY2010 Guarantees	8,348	$4 Billion

3.4%

- Legislation Pending to Increase Contract Limitation from $2 million to $5 million

How Can A Contractor Find an Agent?

- SBA provides a list of agents appointed through the program at www.sba.gov>
  Loans & Grants>Bonds>Surety Bonds

- Contractors may also contact one of the following OSG offices for a referral:

SBA Surety Bond Guarantee Area Offices

Denver Area Office

(303) 844-2607

For Contractors Located Generally in the Northeast, Midwest and Rocky Mountains

Seattle Area Office

(206) 553-0961

For Contractors Located Generally in the South, Southeast and West Coast