



U.S. Small Business Administration

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Surety Bond Guarantee Program
for Small Businesses



A Look Ahead!

- **Contract Surety Bonds**
 - ✓ What They Are & Why They Are Required
 - ✓ **Potential Bonding Capacity**
 - ✓ Maximizing Your Surety Credit
- **SBA Surety Bond Guarantee Program**
 - ✓ Contract Bond Guarantees Up to \$6.5 Million
 - ✓ **The SBA Advantage**
 - ✓ Costs & Getting Started





Common Surety Terms

Principal: YOU, the small business or small business owner.

Agent: representative of the Surety with power of attorney to issue bonds. They market and prepare applications to the SBA and Surety.

Your primary relationship is with the agent.

Surety: corporate entity issuing bonds and legally responsible for paying claims in the event that you default. Also SBA's program partner.

Obligee: project owner who contracts with you for the performance of a contract. The Obligee is made whole by the Surety under the terms of the bond(s) if you default.



What is a Surety Bond?

- **Agreement between:**
 - ✓ You, the Small 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 you will supply the required performance and payment bonds to secure the contract upon award

Performance Bond: guarantees that you will successfully complete the project in accordance with contract terms and conditions

Payment Bond: guarantees that you will pay all subcontractors and labor and material suppliers for their work

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

Use bonds instead of an ILOC or cashier's check whenever possible. Bonds conserve your working capital and help to provide you with protection from fraudulent claims.



Why Surety Bonds are Required

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

Bond requirements vary widely, so always check your specs!



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
 - ✓ Use pre-qualification to obtain bonding capacity without a specific bond application
- Becoming bondable is similar to the process of obtaining bank credit
 - ✓ Setting up new bonding may take a few weeks
- **Know Your Bonding Capacity:**
 - ✓ Single Contract Bond Limit (i.e. \$500,000)
 - ✓ Total Aggregate Bonding Capacity (i.e. \$6,000,000)
 - ✓ Approved Type of Work
 - ✓ Approved Geographical Area



Ask your agent for your bonding capacity!



Surety's Underwriting Focus

- **Technical & Managerial Ability**

- Track Record – past experience demonstrates ability to perform future projects
- **Largest project Surety will bond is about two times your 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 financials typically required for \$1 million & larger job sizes

- **Credit Resources**

- **Fair or Better Personal Credit History**
- Available Credit with Banks & Suppliers





What is Working Capital?

- Measures your business's ability to meet its current and future financial obligations
- Working Capital is calculated from the balance sheet:
Cash + Accounts Receivable + $\frac{1}{2}$ of Inventory
- Current Liabilities
= Available Working Capital
- Available Working Capital **X 10** = Estimated Total Bonding Capacity through Traditional Surety (Non-SBA)





Bank Support

A good banking relationship is important to obtaining bonding.

Agent will request information on:

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

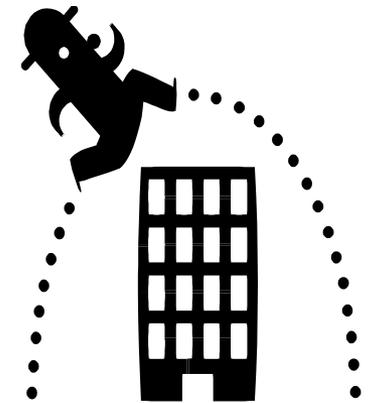


SBA counts the available balance on a BLOC as additional available working capital for your firm. This SBA Advantage increases your available bonding capacity!



Maximize Your Surety Credit!

- **Retain Profits and Build Up Important Balance Sheet Figures:**
 - ✓ **Working Capital**
 - ✓ Net Worth
 - ✓ Debt/Net Worth
- **Prepare Quality Financial Statements**
 - ✓ **CPA Prepared is Preferred – 3 Levels of CPA Financials**
 - ✓ Internal – Qualify for Jobs Up to \$500,000
 - ✓ CPA Compilation – Qualify for Jobs Up to \$1 Million
 - ✓ CPA Review – Qualify for Jobs Over \$1 Million
 - ✓ CPA Audit – Typically Only Required from Large Businesses
 - ✓ It's an Investment in Your Business!
 - ✓ **Better Financials = More Bonding Capacity**





SBA Surety Bond Guarantee Program

SBA's guarantee allows small businesses to obtain contract bid, performance, payment and maintenance bonds not available elsewhere with reasonable terms.

- **SBA can assist many small businesses including:**
 - ✓ **Start-ups and firms in business less than 3 years**
 - ✓ Firms with limited job size history
 - ✓ **Firms with limited financial resources (cash, working capital, etc.)**
 - ✓ Firms with recent losses
 - ✓ **Firms with insufficient financial presentations**
 - ✓ Firms with some credit issues
 - ✓ **Firms wishing to increase current bond limits**



SBA Surety Bond Guarantees

SBA provides participating Sureties 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 veteran 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 business BLOC counts as additional available working capital!
- Total bonding capacity typically double that of traditional surety!

Available Working Capital + Available BLOC

X 20 = Potential Total Bonding Capacity with SBA



- Exception available for insufficient financial statement preparation!
SBA Accepts Internally-Prepared Financials



Does Your Business Qualify?

Step One:

Businesses, including affiliates and subsidiaries, must be small for the primary industry it and the affiliates are engaged in to qualify for SBA programs.

Visit www.sba.gov/size to Locate Your Size Standard

Construction, Service & Supply Firms

- Typically based on average annual revenues for the last three fiscal years compared with SBA established standards by NAICS Code
 - ✓ **\$7.5 Million** limit for some services such as landscaping (561730)
 - ✓ **\$15 Million** limit for most specialty trades such as electrical (238210)
 - ✓ **\$36.5 Million** limit for most heavy construction such as commercial construction (236220) or highway, street and bridge (237310)



Manufacturing Firms

- Typically based on number of employees
 - ✓ 500 Employee limit for most such as ornamental metal work (332323)

Step Two:

- ✓ Need a bid, performance, payment or maintenance bond and be unable to obtain it elsewhere with reasonable terms
- ✓ Be eligible to do business with the Federal Government (not debarred)
- ✓ Business and Principals must not be charged with any current criminal activity or be on probation/parole
- ✓ Business and Principals may not be under current bankruptcy
- ✓ Business and Principals must be current on all taxes



Does Your Contract Qualify?

- **Maximum Initial Contract Size Up to \$6.5 Million**
 - Any Obligee Type – Federal, State, Local, Private & GC
- **Up to \$10 Million on Federal Prime Contracts with Contracting Officer Certification to SBA Washington, DC**
- **QuickApp Available for Jobs up to \$250,000**
 - ✓ Two Page Application with No Financial Statements Required
 - ✓ Decisions Within Hours
 - ✓ Same Guarantee Amounts – 70% to 90%
- Bonds Must be Required by the Bid or Contract Documents





What Will the Agent Require?

Business Financial Statements

- Last Three Fiscal Year-Ends
- 6 Month Interim

Personal Financial Statements

- Principals and Spouses

Bank Reference Letter

- BLOC Information Particularly



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

- Required for Every Bond Guarantee Request – Project Specific

Additional information may be required based on individual circumstances.



What's the Cost?

- **Bid Bonds**

- ✓ No fee

- **Performance/Payment/Maintenance Bonds**

- ✓ SBA Bond Guarantee Fee: .729% of the Contract Amount
 - Paid directly to SBA via www.pay.gov
- ✓ Surety's Bond Premium: 1.5% - 3% of the Contract Amount
 - Paid directly to your agent
 - Ask your agent for your exact rate in each state
 - Surety pays SBA 26% of the premium collected from you



Include these costs in your bid estimates and initial pay requests to ensure reimbursement by the Oblige.



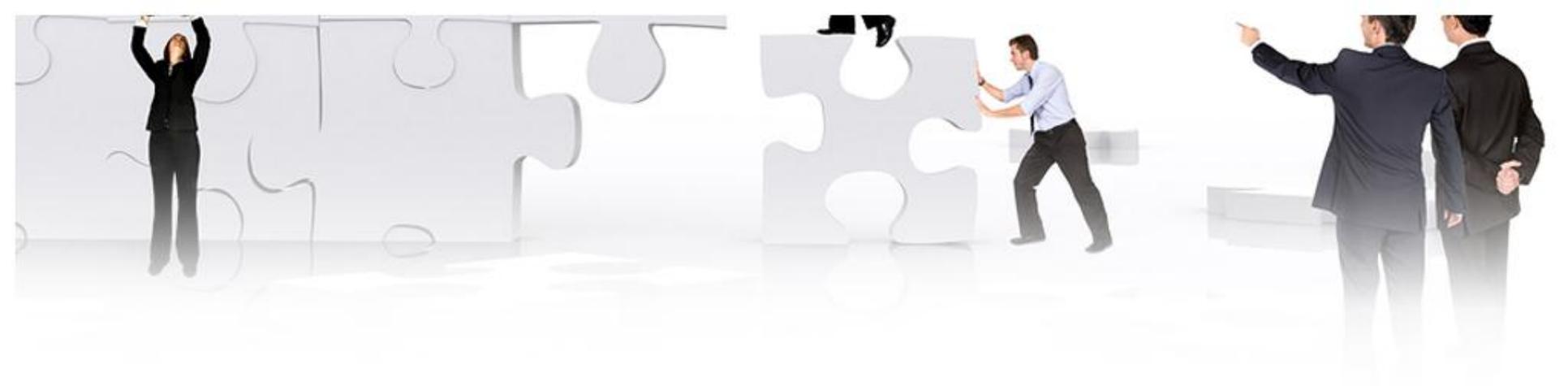
Costs of Bonding Example

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 ($\$500,000 \times 1.8\%$)
<u>3,645</u>	.729% SBA's Guarantee Fee ($\$500,000 \times .729\%$)
<u>\$12,645</u>	Total Cost for Bonds





Pay.Gov Electronic Fee Payments

- All SBA Fees Paid via www.pay.gov
- Free Service of the U.S. Treasury
- Register to Search Prior Payments
- **Choose Your Method**
 - ✓ ACH (Automatic Draft from Checking/Savings)
 - ✓ Debit Card
 - ✓ Credit Card





Begin the Application Process!

1. Contact an SBA approved bond Agent in your area for assistance.
2. **Provide the Agent with the required application package.**
3. Agent approaches an SBA Surety for approval.
4. **Agent applies for an SBA bond guarantee electronically on behalf of your small business.**
5. SBA staff reviews & approves qualified applications in three Area Offices based on the location of your small business.
 - ✓ **Applications currently approved in less than 2 days on average!**
6. **Agent provides the bond(s) to your small business.**
7. Execute and deliver bonds to your obligee so you may begin work.

SBA participating Sureties may bond a business with or without an SBA guarantee or decline to bond a business if it does not qualify.



Locate an SBA Approved Bond Agent

- **Access SBA's List of Approved Bonding Agencies by State:**
http://web.sba.gov/orasbgpub/dsp_welcome.cfm
- Contact an SBG Area Office for a Referral
- Contact Your Local SBA District Office for a Referral
- **Ask Your Current Agent to Contact Us if They Wish to Participate**





Authorized Agents - New England Region

Albert J. Tonry & Company
Quincy, MA
(617) 773-9200

Farmington, CT
(860) 674-0123

Eastern Insurance Group
Natick, MA
(800) 333-7234

Rowley Agency
Concord, NH
(800) 238-3840

Marquis Bonding & Insurance
Stoneham, MA
(781) 640-7868

Traina & Traina
Sterling, MA
(978) 422-7700

Skillings, Shaw & Associates
Lewiston, ME
(207) 753-7300



Additional SBA Resources

- **SBA Loan Programs**
 - ✓ **CAPLines & SBA Express - Lines of Credit**
 - \$50,000 to \$5 Million Limits
 - ✓ **SBA 7(a) Loans/Microloans/Community Advantage Loans/Export & Disaster Loans**
- **8(a) Business Development Program**
- **Small Business Development Centers (SBDCs)**
- **Women's Business Centers (WBCs)**
- **Veteran Business Outreach Centers (VBOCs)**
- **Procurement Technical Assistance Centers (PTACs)**
- **U. S. Export Assistance Centers (EACs)**
- **SCORE Counseling Services**



Contact your local SBA District office or www.sba.gov for additional information.



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