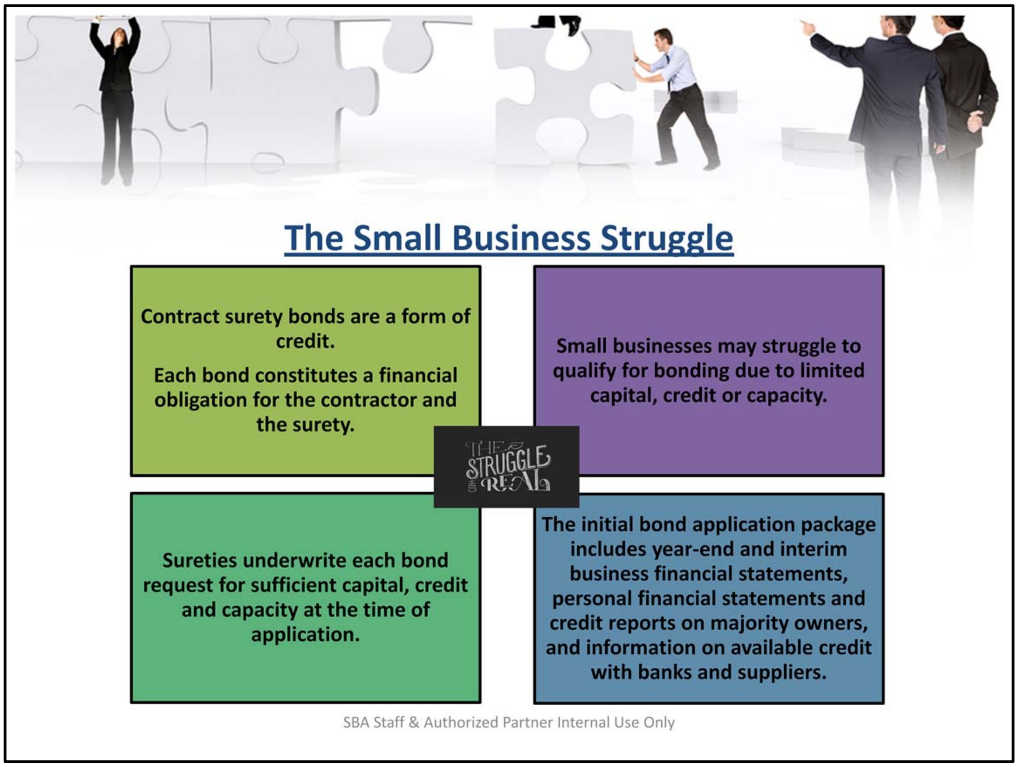
Surety Bond Guarantee Program
SBA Staff & Partner Training

"We Open Doors to Bonding" for Small Business

SBA Staff & Authorized Partner Internal Use Only



Contracting firms will often be required by municipalities to secure license and permit bonds in order to perform work within their jurisdiction.

License and permit bonds are typically simple to qualify for and secure from any local bonding agent.

Contract bonding is a different form of bonding than license and permit bonding, requiring demonstration of good character, experience in the field, business management skills, sufficient capital, and a strong financial presentation.

Establishing contract bonding is similar to securing a loan or other form of credit.

Small businesses should be prepared to provide business and personal financial statements, know that the owner's personal credit will be evaluated, and that they will be asked to complete SBA Forms 994 and 912 if SBA support is required for their bonding.

Securing contract bonding helps to pre-qualify firms to project owners, ensuring those owners that the business they are hiring is the best option for their job, and that their project will be completed on schedule, according to specifications, with no liens or unpaid bills, or the surety will step in to remedy performance or payment issues to make the obligee whole in connection with the terms of the bonds issued.

Contract bond requirements are project specific and established by the project owner (obligee) based on federal, state, and local laws or the obligee's own internal guidelines, and outlined in the specifications for each project.

When you are working with small businesses during counseling, the loan application process, etc. ask if they need contract bonding or have contemplated performing bonded work. Bonded work can be a new and lucrative revenue stream for a small business.

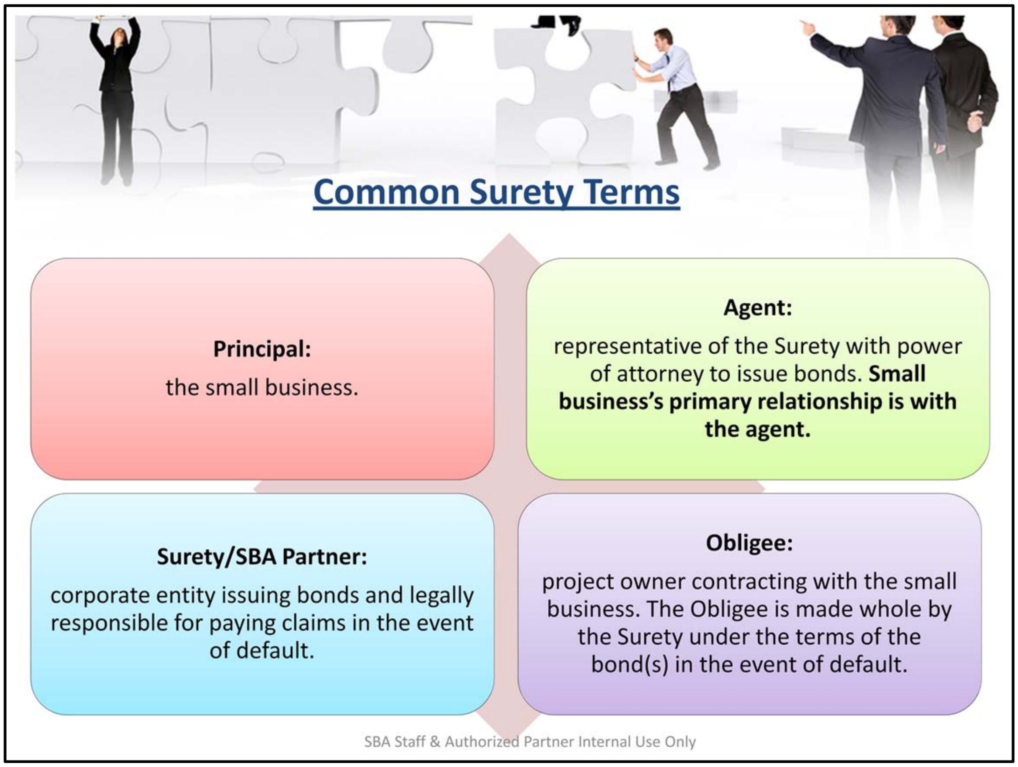
SBA advantages become excellent selling points to small businesses interested in qualifying for contract bonding or interested in increasing their current bonding capacity or bondability.

A working capital bank line of credit is beneficial in the traditional contractor-surety relationship, but takes on more significance in SBA's Surety Bond Guarantee Program.

SBA counts the available balance on the BLOC as additional available working capital available to the small business to assist in qualifying for bonding or increasing bonding capacity.

SBA's working capital requirements for small businesses are typically half that of traditional surety, often allowing small businesses to qualify for potentially twice as much bonding capacity.

SBA also provides opportunities for small businesses to secure bonding for larger projects where the financial statement presentation may not meet that of traditional surety requirements, giving the small business the opportunity to perform the contract and secure the appropriate financial statement for future projects of that magnitude.



Common terms specific to the surety industry that small businesses should be familiar with are:

The Principal is the small business.

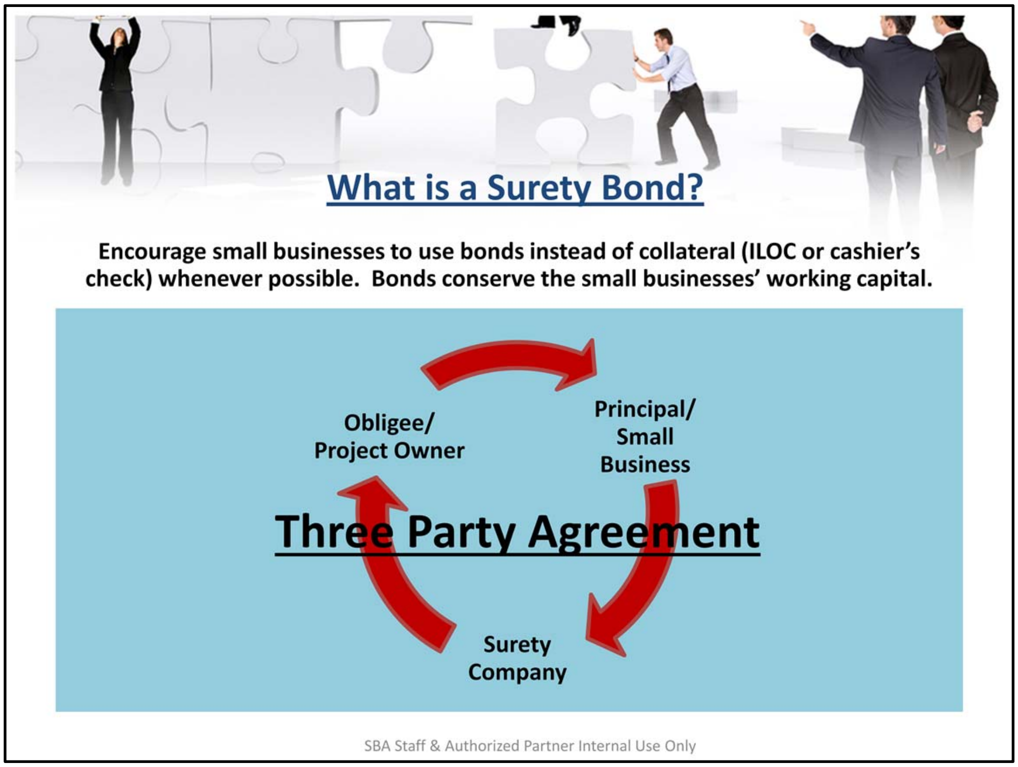
The Agent is the legal representative of the Surety with power of attorney to issue bonds on behalf of small businesses on the surety's paper.

The small business's primary relationship is with the Agent.

If small businesses have questions about bonding capacity and how to increase it, need a referral to a construction CPA, etc., their agent is their front line contact, advocate and advisor.

The Surety is the corporate entity issuing the bond and responsible for paying claims in the event of a contractor default.

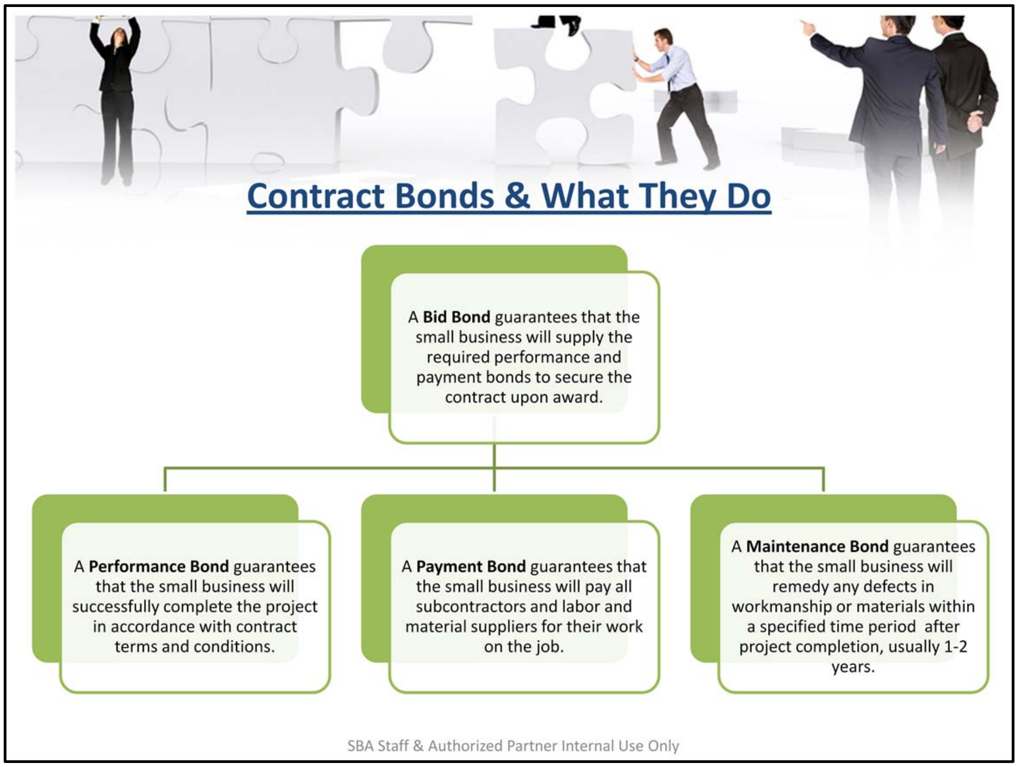
The Obligee is the project owner and beneficiary of the bonds.



A surety bond is therefore a three-party agreement between the Principal, Surety, and the Obligee.

SBA encourages small businesses to use bonds in lieu of any form of cash collateral whenever possible.

Substituting a performance bond for cash collateral allows the small business to retain that cash, to have it available for their day to day operations, rather than transferring it to the project owner.



There are four types of contract surety bonds.

A bid bond applies when a small business is bidding on a project and assures the project owner that the small business will provide the required combination of performance, payment, and maintenance bonds to secure the contract upon award.

The remaining three bonds apply in various different combinations once the contract has been awarded.

A performance bond guarantees that the small business will complete the project in accordance with its terms and conditions.

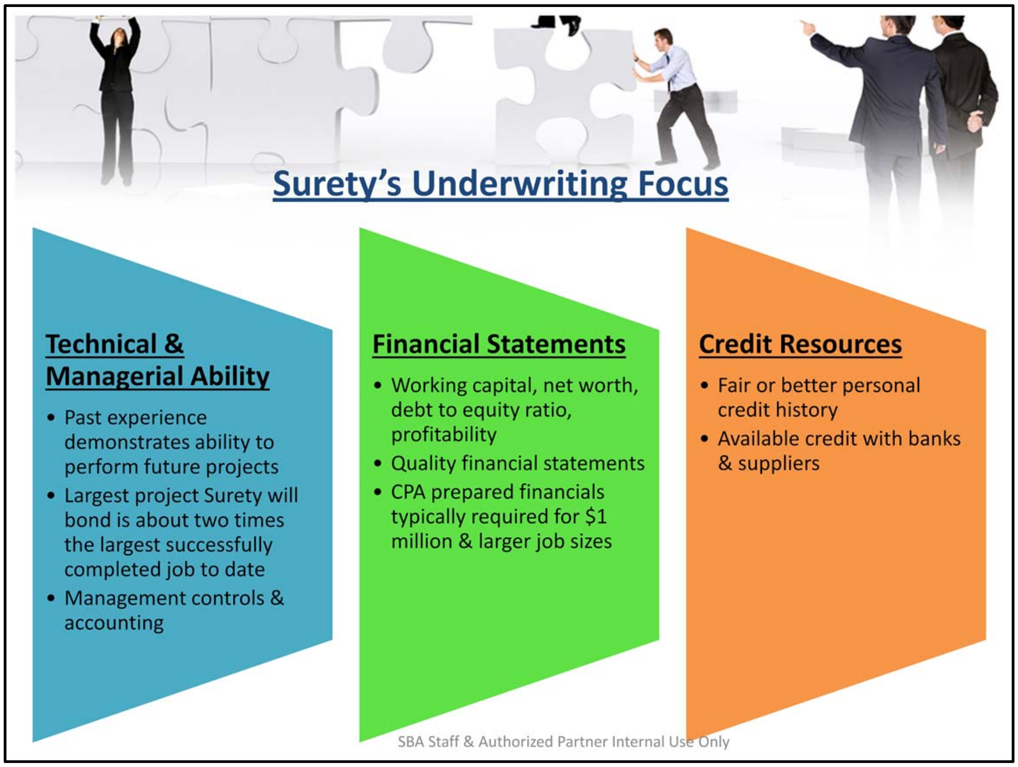
A payment bond guarantees that the small business will pay its subcontractors and material suppliers on the project.

A maintenance bond guarantees that the small business will remedy any defects in workmanship and materials on the project within a specific time period after its completion, usually one to two years.

Contract bonds are required by obligees to ensure that their projects are successfully completed with no liens against the project.

Contract bond requirements vary from place to place and project to project because of differing laws and regulations at the federal, state, and local level, and internal requirements established by private obligees.

Since bond requirements vary tremendously it is vital for small businesses to check the specifications on each of their projects for bond requirements, typically found in the same area of the project conditions as the insurance requirements.



Sureties will focus their underwriting attention on three main areas of qualification when considering providing contract bonding for small businesses.

The small business's technical and managerial ability, and character qualification, includes a review of past projects and information about internal controls such as job cost records, key personnel, internal accounting staff, etc.

Sureties will typically qualify a small business for a largest bonded project that is no more than two times their largest successfully completed project to date.

Total bonding capacity is typically established based on the capital available to the small business from the next area of review – the financial statements.

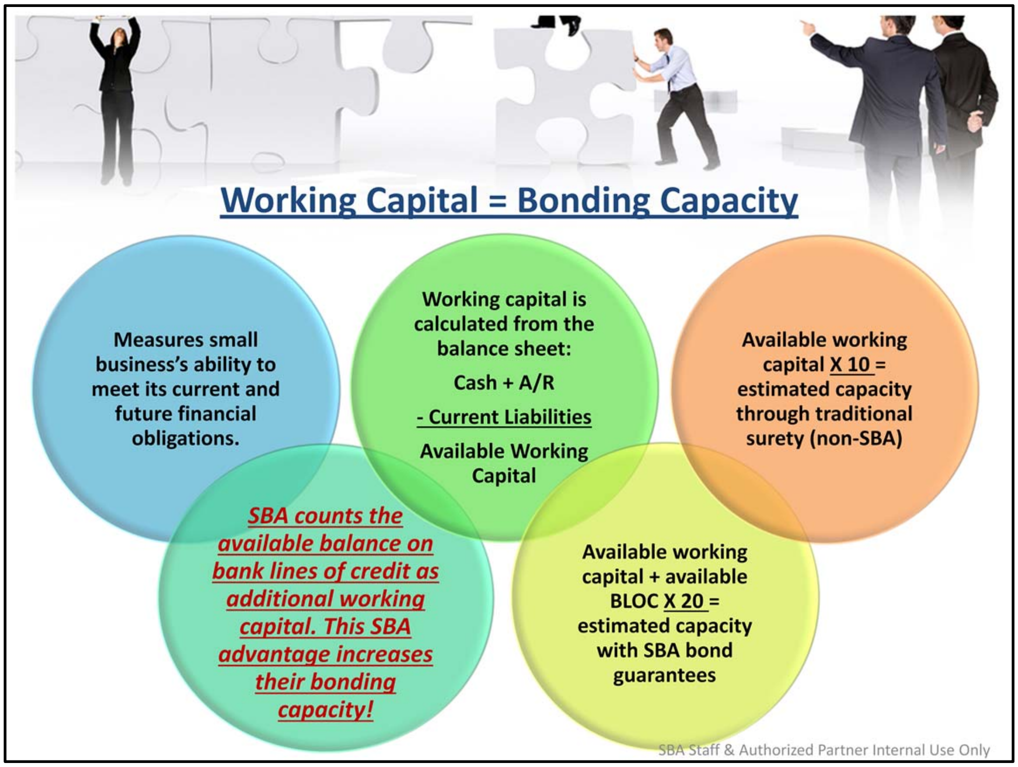
Working capital from financial statements directly relates to the amount of total bonding capacity for which a small business can qualify.

Previous project profitability and overall business profitability as well as the quality of the financial statement presentation will be considered.

CPA-prepared financial statements are typically required to obtain bonding on project of $1 million or more in size.

Lastly, sureties will focus on the personal credit histories of the owners of the small business and any credit available to the business from suppliers of banks.

A revolving bank line of credit can be a real asset to a small business participating in SBA's Surety Bond Guarantee Program as SBA considers the available balance as additional working capital available to the small business for qualification purposes.



Working capital is tied to total potential bonding capacity because it measures the small business's ability to meet its current and future financial obligations.

Small businesses can calculate their potential working capital from their balance sheet by adding cash plus accounts receivable and deducting all current liabilities.

In a traditional, non-SBA bonding relationship, a surety will typically provide a small business with total bonding capacity of about 10 times the available working capital from the balance sheet.

With SBA support, however, the working capital from the balance sheet is supplemented with any amount available on the small business's revolving, working capital bank line of credit to increase the total available working capital available to establish total bonding capacity.

Since SBA's working capital requirements are about half those required in a traditional surety relationship, small businesses can typically qualify for total bonding capacity of 15 to 20 times the total available working capital instead of the 10 times usually available in a traditional, non-SBA supported bonding relationship.

This is a unique advantage to small businesses provided only through SBA's Surety Bond Guarantee Program.

SBA assists many different types of small businesses through the Surety Bond Guarantee Program. Some of the types of small businesses that come to SBA for assistance with bonding are those with a limited job performance history, limited or insufficient capital, credit issues, and those wishing to make the leap to larger project sizes or increased bonding capacity limits.

SBA currently partners with more than 20 sureties who assist small businesses with establishing or increasing bonding capacity.

SBA's bond guarantee allows its partner sureties to take on somewhat riskier business than they would otherwise consider without SBA's guarantee.

Through the Prior Approval Program, veteran and service-disabled veteran owned, minority owned, 8(a), and HUBZone small businesses are granted a 90% guarantee by SBA on each bond. SBA also provides a 90% guarantee on all projects $100,000 or smaller. SBA provides an 80% guarantee on each bond for all other small business types in the Prior Approval Program.

Through the Preferred Program, SBA provides a 70% guarantee on each bond. SBA expects to announce an increase in the guarantee provided through the Preferred Program early in 2017, which will establish the same guarantee percentages and qualification requirements in the Preferred Program as those in the Prior Approval Program.

Our partner sureties chose to participate in either Prior Approval or Preferred based on their business model.

Sureties also have differing appetites for different types of business.

When a small business contacts an SBA authorized agent, the agent chooses the most advantageous surety from the sureties they represent through SBA.

Qualification requirements are typical to other SBA programs:
Business must be small and be a for profit US entity with legal US owners, eligible to work with federal government, not in bankruptcy, and current on taxes.

Small businesses don't have to have been denied bonding to qualify for an SBA bond guarantee. They simply must need a bid, performance or payment bond and be unable to obtain it elsewhere with *reasonable terms*.

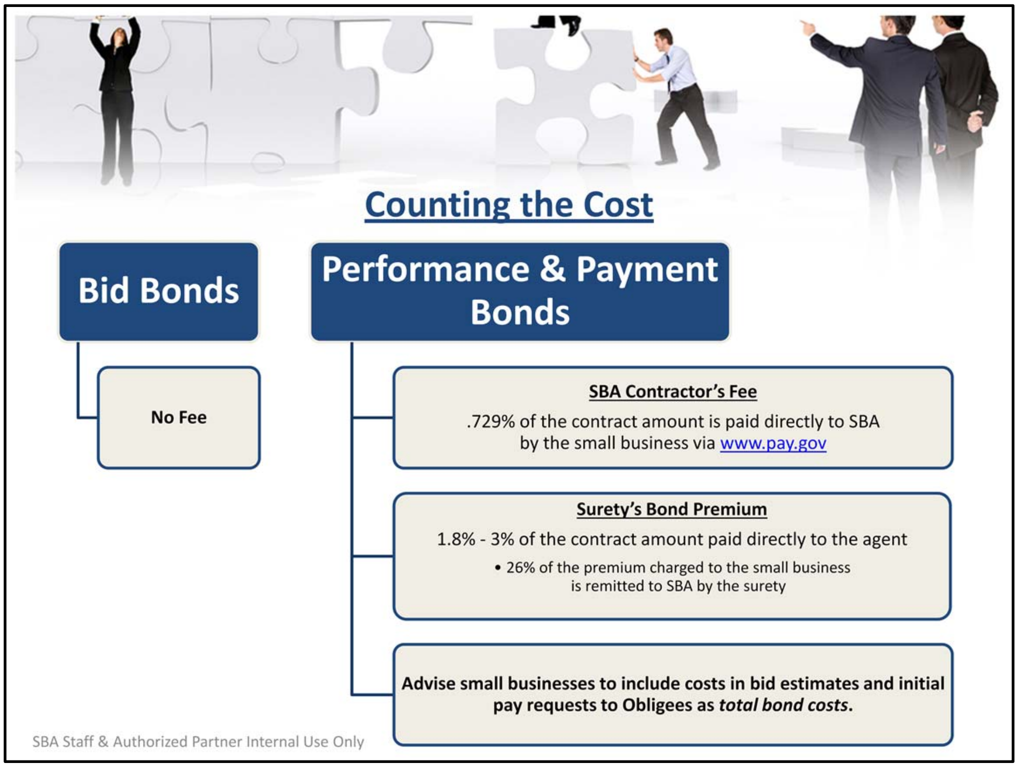
The QuickApp is perfect for first time applicants because it does not require the submission of financial statements and other documents typically required to qualify for bonding.

SBA partner sureties typically underwrite the QuickApp based on the business owners' credit.

The QuickApp is designed for small, simple projects, though an increase to the limit from $250,000 to $400,000 is expected for early 2017 implementation.

Additional details and limitations can be found on our QuickApp flyer, available for your marketing and outreach efforts on SBA's LRS and partner training portals or from one of our marketing specialists.

Beyond the QuickApp, SBA can guarantee **any contract type** up to $6.5 million in size and up to $10 million on a direct Federal prime award with one additional step in the process.



Bid bonds generally have no associated cost to secure. Small businesses incur bond costs when securing performance and payment bonds upon contract award.

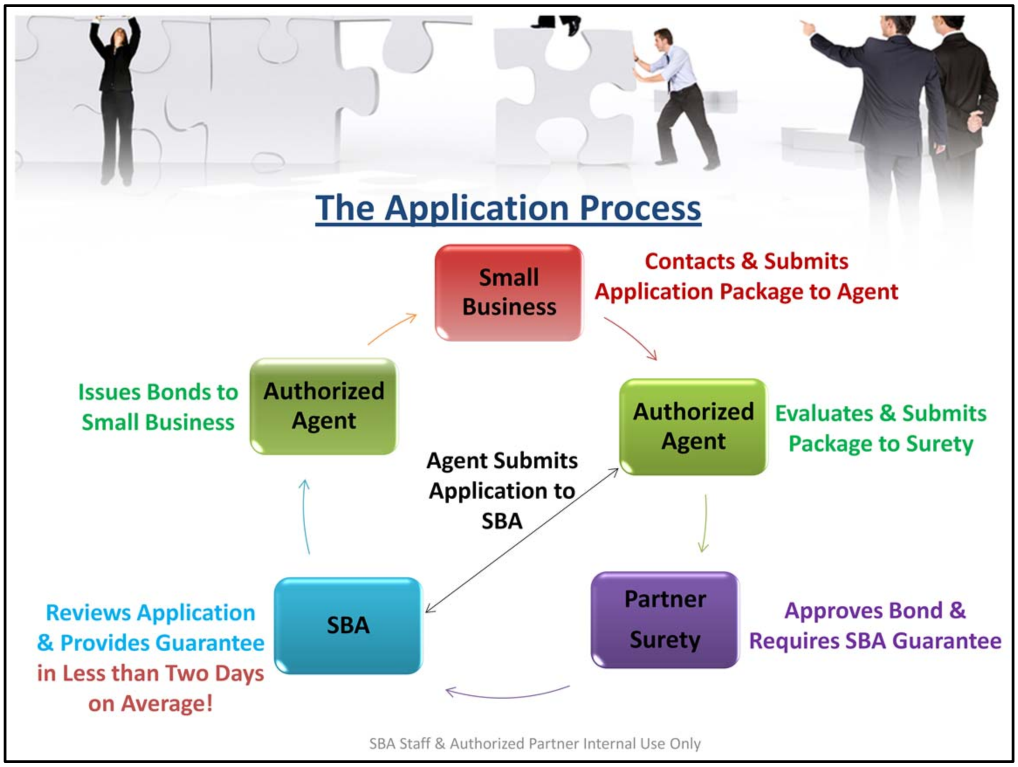
SBA authorized agents assist with collecting the .729% contractor's fee during the guarantee application process with SBA.

Small businesses use www.pay.gov free of charge to submit their contractor's fee directly to SBA.

Charges for the Surety's bond premium vary based on the rates each surety has filed in each state, for different types of work.

Small businesses should ask their agent for their exact surety premium rate in the states in which they work.

Advise small businesses to include total bond costs in their bid estimates and first pay requests to qualify for reimbursement by the obligee.



The application process always begins with connecting small businesses with an SBA authorized agent.

(More instructions and details next slide.)

The small business submits an application/documentation to an SBA authorized agent.

The agent evaluates the package, then submits it to an SBA partner surety that they represent for evaluation.

The surety agrees to bond the small business and requires SBA's guarantee to do so.

The SBA authorized agent uses SBA's electronic application process to submit guarantee applications directly to SBA on behalf of the small business.

Each application is reviewed by an SBA surety bond guarantee specialist, with guarantees approved in less than two days on average.

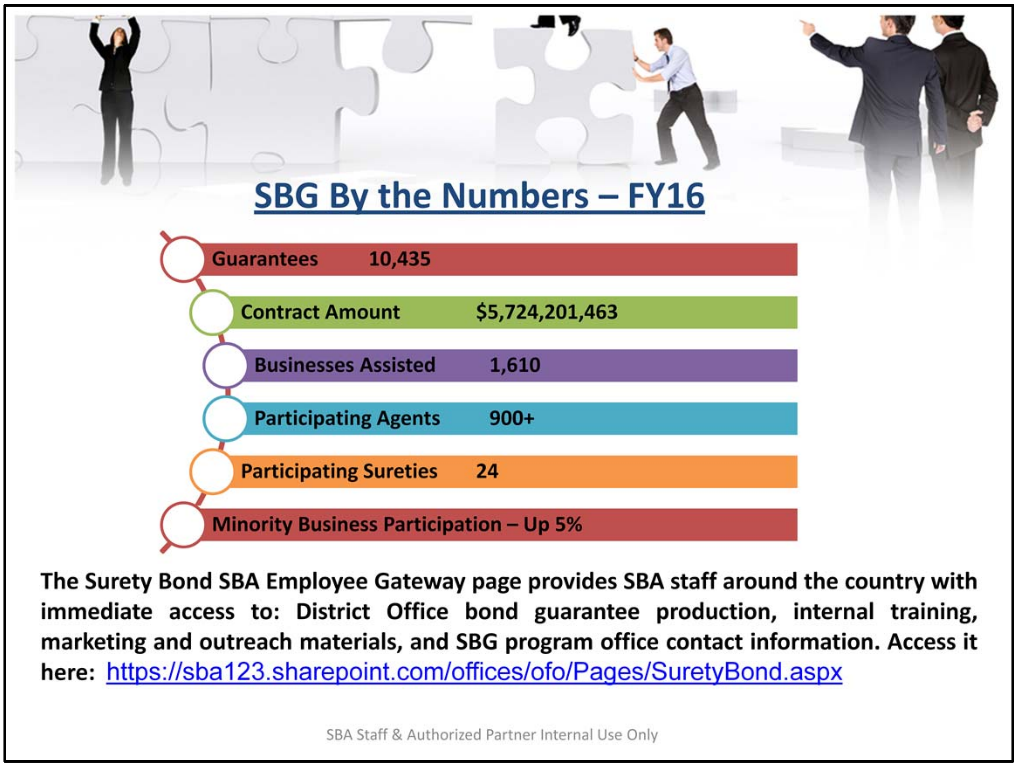
Upon SBA approval the agent provides the bonds to the small business so they can submit their bid or get started on their project.

Not all agents are authorized by SBA, but you can access our authorized agent list through the LRS or SBDC/Partner training portals or directly through our website at www.sba.gov/osg.

You can also reach out to one of our marketing specialists for referrals to authorized agents in your state.

Authorized agents and members of our staff can provide further guidance and assistance to you and to interested small businesses.

We routinely authorize new agents, so let us know if you hear from an agent in your area that's interested in joining the program.

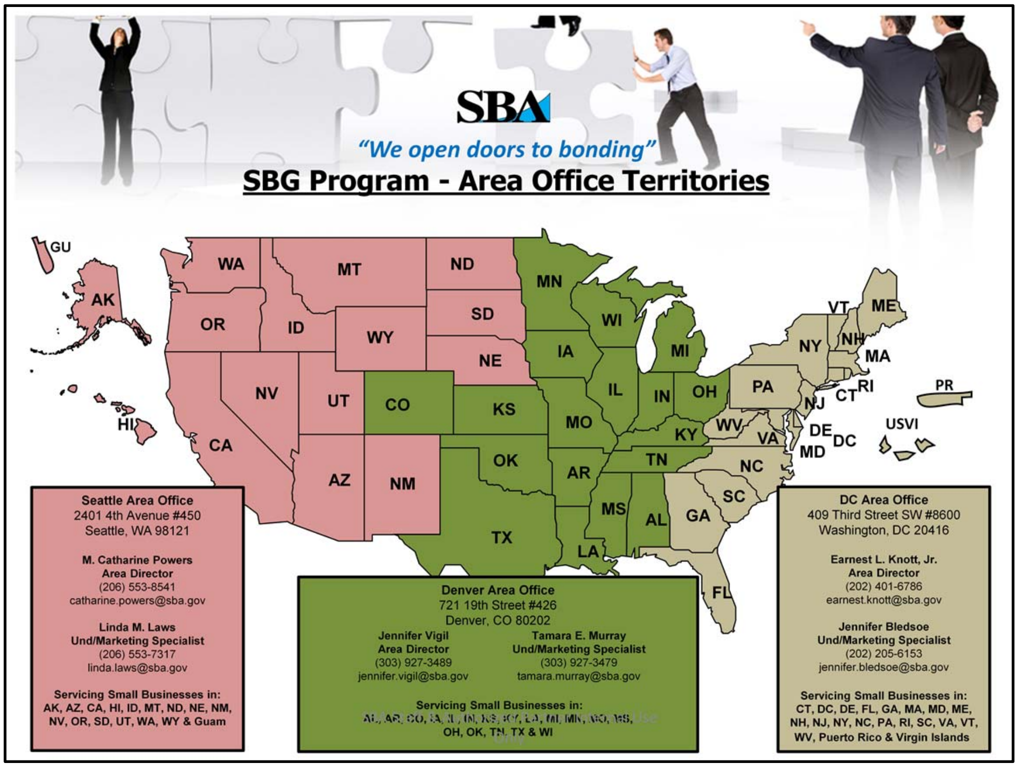


In FY16 SBA guaranteed more than 10,000 bonds with a total dollar value of $5.7 billion, while assisting more than 1,600 small businesses.

Links to SBA's partner training sites with additional information and marketing materials are included here.

Marketing materials are also available directly from the Underwriting Marketing Specialist covering your territory.

(Territories and contacts on next slide.)



Contact the Underwriting Marketing Specialist covering your territory for current marketing tools, training, and outreach assistance.

SBA needs your assistance in conducting outreach for the Surety Bond Guarantee Program to small businesses in your area.

Hosting small business outreach webinars with your area's marketing specialist is a great way to help us and to accomplish your own outreach goals and metrics.

Your efforts will help us open doors to bonding for small business.

Let us know if you have any local large events where our presence might be beneficial, as our marketing specialists also travel subject to budgetary constraints.

Thank you for your time and for all you do to assist small business.

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