

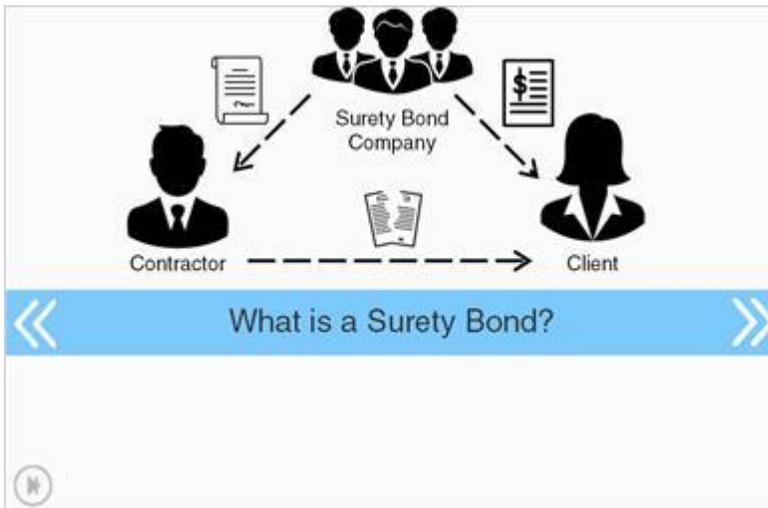
Surety Bonds Transcript

Introduction



Ready to learn about SBA Surety Bond Guarantees? Click Begin to start.

1.2 What is a Surety Bond?



Essentially, a surety bond is an agreement between at least three parties: a contractor, a client, and a third-party surety bond company. The contractor obtains a surety bond from a surety company, and if the contractor fails to meet its contractual agreement, the surety company is obligated either to find another contractor to complete the contract or it must compensate the client for the financial loss incurred.

When should a Surety Bond be obtained?

Mandatory for federally financed > \$150,000

When should a Surety Bond be obtained?

If you want to bid on public construction contracts and many private contracts, you'll probably need a surety bond. For example, surety bonds are mandatory for any federally-financed construction project valued over \$150,000 and are mandatory on many state projects as well. Commercial contracts for manufacturing and service or supply work may also require a surety bond.

What is SBA's involvement in Surety Bonds?

Construction
Services
Supply

SBA

Risk of contract default

1 Bid Bonds
2 Payment Bonds
3 Performance Bonds

Under the Surety Bond Guarantee Program, SBA guarantees surety bonds for small businesses in federal, state, local and commercial contracts and subcontracts. SBA guarantees include construction, services and supply contracts.

The program is intended for small companies that may not otherwise qualify for conventional surety bonds. Small companies, after all, might lack either the contracting experience or the financial strength to get a surety bond directly from a surety company. That's where SBA can step in, by leveraging its federal partnership with the surety industry to guarantee a bond and help mitigate the risk of contract default. Surety companies that work with SBA are certified by the U.S. Department of the Treasury.

SBA guarantees three types of surety bonds: bid bonds, payment bonds, and performance bonds. Each protects a different aspect of the bidding process and the contract.

What is the process to obtain a Surety Bond?

The infographic is titled "What is the process to obtain a Surety Bond?". It features a list of six factors for surety companies to consider, followed by a blue banner with the title and three large letters representing the "three C's": Capital, Character, and Capacity. At the bottom, there is a button labeled "SBA.gov's Forms Page".

- 1. Working Capital and Cash Flow
- 2. Past Performance History
- 3. Business Debt & Equity
- 4. Capacity to complete the contract
- 5. Personal History
- 6. Character Assessment

Apply with Surety Company

Capital Character Capacity

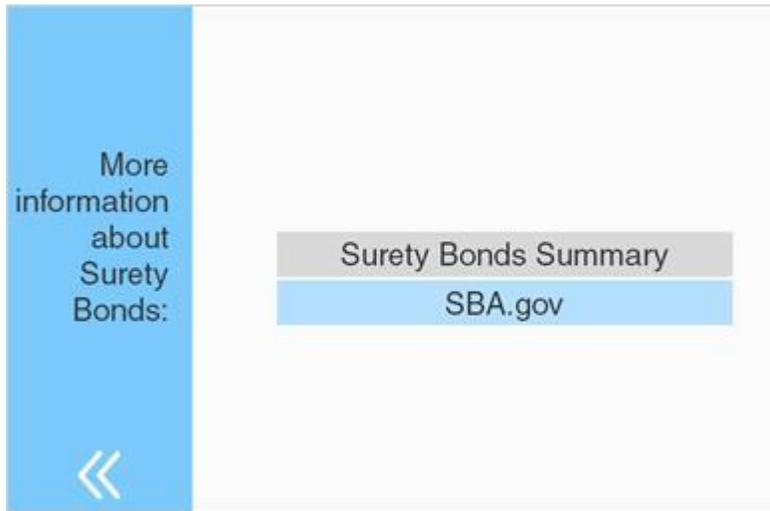
SBA.gov's Forms Page

Because the SBA does not offer bonds directly, you'll need to first apply with a surety company or agent. The underwriting for surety bonds varies depending on the issuer, but there are a few key factors that most sureties consider when evaluating your company's application. Among these are: the adequacy of working capital and cash flow to complete the project; past performance history, business debt and equity, and the capacity to complete the contract, and the personal history and character assessment. Surety companies often refer to these requirements as the "three C's - capital, character and capacity." More information is available on the SBA Surety Bond Guarantee application page.

You'll also have to meet several SBA requirements. Most importantly, SBA guarantees are for small businesses that cannot secure a bond on their own. The contract in question must also be valued at less than \$6.5 million; and your business must qualify as "small" according to SBA's size standards / NAICS code.

Once you've found a surety company or agent, you can get started. For the SBA portion of the application, SBA.gov's forms page has the needed paperwork.

More Information



For more information on SBA Surety Bonds, check out the other resources available on the SBA Partner Training Portal, or visit SBA.gov's Surety Bonds page.