



HELPING SMALL BUSINESS START, GROW AND SUCCEED

SBA's Surety Bond Guarantee Program Raises Ceiling to \$5 million

If your small construction, service or supply company bids or performs projects requiring surety bonds, the U.S. Small Business Administration has good news for you.

Under the American Recovery and Reinvestment Act, SBA can guarantee bonds on public and private contracts and subcontracts up to \$5 million, and on federal contracts up to \$10 million, if the contracting officer certifies that a bond guarantee is in the best interest of the government. The SBA program is for small businesses that otherwise cannot obtain bonds through standard commercial channels. The program extends through Sept. 30, 2010. The previous limit was \$2 million.

Small business contractors and manufacturers can overcome challenges they face in winning public and private contracts by using the SBA's Surety Bond Guarantee Program. Broadly speaking, a surety bond is a contract between the surety company and the contractor (principal) for the benefit of a third party – usually the project owner or another contractor. Under SBA's program, SBA guarantees between 70 and 90 percent of the bond amount in the event the small business is unable to complete the contract.

The SBA Surety Bond Guarantee Program covers four types of major contract surety bonds:

Bid Bond – guarantees the project owner that the bidder will enter into the contract and furnish the required payment and performance bonds.

Payment Bond – guarantees the contractor will pay all persons who furnish labor, materials, equipment or supplies for use on the project.

Performance Bond – guarantees the contractor will perform the contract in accordance with its terms, specifications and conditions.

Ancillary Bond – bonds that are incidental and essential to the performance of the contract.

There are two surety bond guarantee programs:

The Prior Approval Program – The SBA guarantees 80 or 90 percent of a surety's loss. Participating sureties must obtain SBA's prior approval for each bond.

The Preferred Surety Bond Program – Selected sureties receive a 70 percent guarantee and are authorized to issue, monitor and service bonds without the SBA's prior approval.

Program Eligibility Requirements

In addition to meeting the surety company's bonding qualifications, you must qualify as a small business concern, as defined by SBA. This means that for any contract, your company must meet the small business size standard for the North American Industry Classification System (NAICS) Code. For more information about SBA's size standards go to:

www.sba.gov/smallbusinessplanner/start/financestartup/SERV_ELIGIBILITY.html

How to Apply

The SBA does not directly bond a contractor. The contractor chooses a surety company or a bonding agent who represents an SBA surety participant. An agent is an individual who has power-of-attorney to issue bonds on behalf of a surety. The contractor fills out the surety application and the required SBA forms, providing the agent with the required credit, capacity and character information. The agent then underwrites the application and decides whether to execute the bond with or without an SBA guarantee. To view the list of Participating Surety Companies and Agents go to www.sba.gov/osg/.

Costs

The cost to a contractor for a surety bond is called the “bond premium.” The SBA charges fees to both the contractor and the surety company. The SBA does not charge a fee for bid-bond guarantees.

In addition to the bond premium charged by the surety, the SBA currently charges the contractor a guarantee fee of \$7.29 per thousand dollars of the guaranteed amount, and charges the surety 26 percent of the premium that the surety charges.

SBA Surety Bond Guarantee Area Offices can answer small business’s questions about the program and can provide small businesses with a list of surety companies in their states.

Denver Area Office

Supervisory Surety Bond Specialist
Darryl Bellamy
721 19th St., Suite 426
Denver, CO 80201-0660
Phone: 303/844-2607, ext.261
FAX: 303/844-5237

Geographic Territory: Colorado, Connecticut, Delaware, District of Columbia, Illinois, Indiana, Iowa, Kansas, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Montana, Nebraska, New Jersey, Ohio, South Dakota, Utah, Wyoming, North Dakota, Rhode Island, New Hampshire, New York, Pennsylvania, Puerto Rico, Vermont, Virgin Islands, Virginia, West Virginia and Wisconsin.

Seattle Area Office

Supervisory Surety Bond Specialist
Thomas Ewbank
2401 4th Avenue, Suite 450
Seattle, WA 98121
Phone: 206/553-0961
FAX: 206/553-6259

Geographic Territory: Alabama, Alaska, Arkansas, Arizona, California, Florida, Georgia, Guam, Hawaii, Idaho, Kentucky, Louisiana, Mississippi, Nevada, New Mexico, Oklahoma, North Carolina, Oregon, South Carolina, Texas, Tennessee and Washington.

All SBA programs and services are provided to the public on a nondiscriminatory basis.