



*U.S. Small Business Administration*

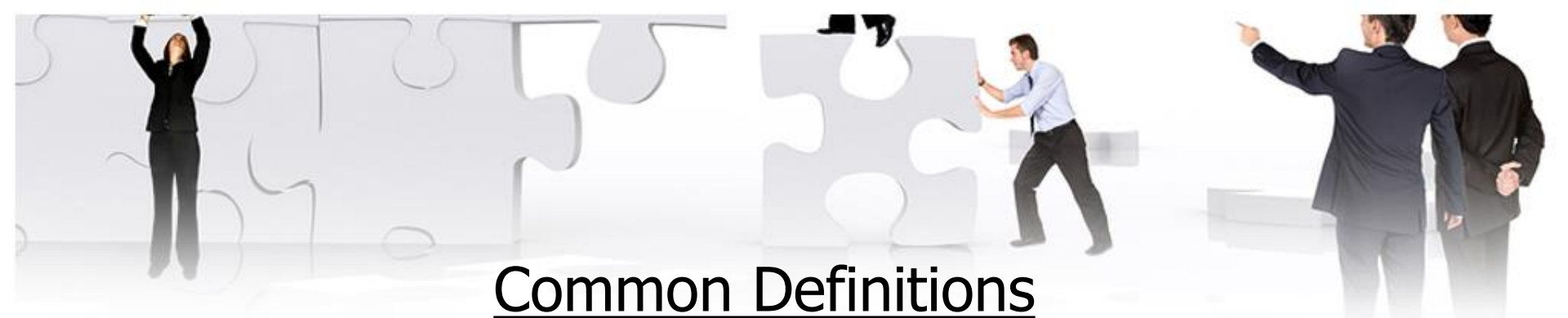
**U.S. Small Business Administration**  
**Surety Bond Guarantee Program**  
**for Small Businesses**



## The Basics – What to Look For

- **Contract Surety Bonds:**
  - ✓ Contract bonds & why they are required
  - ✓ Surety's underwriting focus
- **SBA Surety Bond Guarantee Program:**
  - ✓ Program parameters
  - ✓ Required information
  - ✓ Application process & fees





## Common Definitions

**Principal:** small business/contractor or its owner(s).

**Agent:** representative of the Surety with power of attorney to issue bonds. They market and prepare applications to the SBA and Surety. Principal's primary relationship is with the agent.

**Surety:** corporate entity legally responsible for paying claims after a Principal has defaulted and SBA's program partner.

**Obligee:** project owner who contracts with the Principal for the performance of a contract. If the Principal defaults on a project the Obligee is made whole by the Surety.



# What is a Surety Bond?

- **Agreement between:**
  - ✓ Business/Principal
  - ✓ Surety Company
  - ✓ Obligee/Project Owner
- **Types of contract surety bonds:**
  - ✓ Bid Bond
  - ✓ Performance Bond
  - ✓ Payment Bond
  - ✓ Maintenance Bond





## Contract Bonds Defined

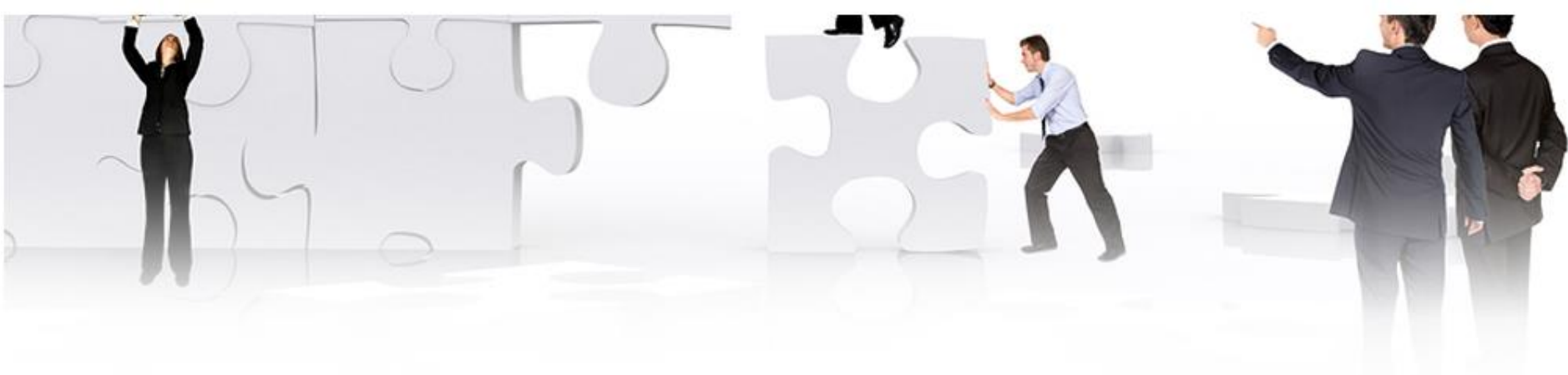
**Bid Bond:** guarantees that if the Principal is awarded a contract, the required performance and payment bonds will be provided

**Performance Bond:** guarantees the contract will be successfully completed in accordance with contract terms and conditions

**Payment Bond:** guarantees that subcontractors and labor and material suppliers will be paid for their work

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

**Use bonds instead of an ILOC or cashier's check. Bonds conserve your small business's working capital and 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



## 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
- Becoming bondable is similar to the process of obtaining bank credit
  - **Setting up bonding may take several weeks**
- Know Your Bonding Capacity:
  - ✓ **Single Contract Bond Limit (i.e. \$300,000)**
  - ✓ **Total Aggregate Bonding Capacity (i.e. \$2,000,000)**
  - ✓ **Approved Type of Work**
  - ✓ **Approved Geographical Area**





# Surety's Underwriting Focus

- **Technical & Managerial Ability**

- Track Record – past experience demonstrates ability to perform future projects
- Typically no more than two times 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 typically required for \$1 million & larger job sizes

- **Credit Resources**

- Credit History (business and owners)
- Banks & Suppliers







## What is Working Capital?

- Measures business's ability to meet current and future financial obligations
- **Total bonding capacity typically based on available working capital**
- Working Capital is calculated from the balance sheet:  
Cash + Accounts Receivable +  $\frac{1}{2}$  of Inventory  
- Current Liabilities  
**= Allowed Working Capital**





## Bank Support

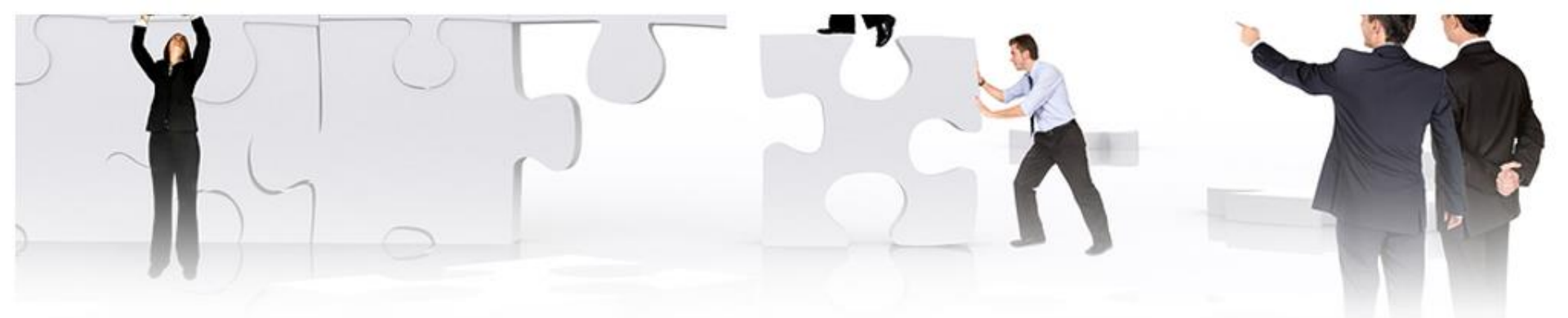
A good banking relationship is important to obtaining bonding.

Agent will request information on:

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



**BLOC - SBA counts the available balance on a BLOC as additional available working capital!**



## SBA Loans

SBAExpress Loan/SBA Microloan/SBA Community Advantage Loan

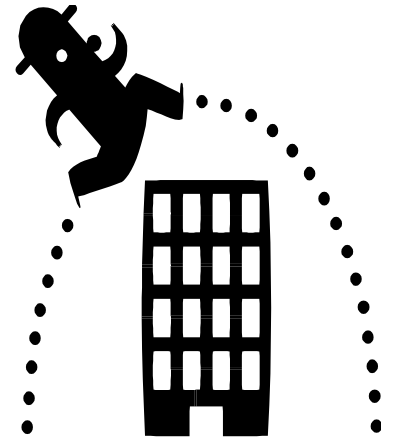
- ✓ Finance short term working capital needs
- ✓ **\$50,000 to \$350,000 limits**
- ✓ LOCs Available (Express)
- ✓ **Contact a local SBA participating lender to apply**





## Maximize Your Surety Credit

- **Retain profits and build up these important balance sheet items:**
  - ✓ Working Capital
  - ✓ Net Worth
  - ✓ Debt/Net Worth
- **Prepare quality financial statements**
  - ✓ CPA Prepared is Preferred – 3 Levels of CPA Financials
  - ✓ It's an Investment in Your Business!





## SBA Surety Bond Guarantee Program

**SBA guarantee allows small businesses to obtain contract specific bid, performance, payment and maintenance bonds not available elsewhere**

SBA can assist many small businesses including:

- **Start-ups and firms in business less than 3 years**
- Firms with limited track record in prior completed job size
- **Firms with limited financial resources (cash, working capital, net worth)**
- **Firms with insufficient financial presentations**
- Firms with recent losses
- **Firms with some credit issues**
- Firms wishing to increase current bond limits



## SBA Surety Bond Guarantees

SBA provides the Surety 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**

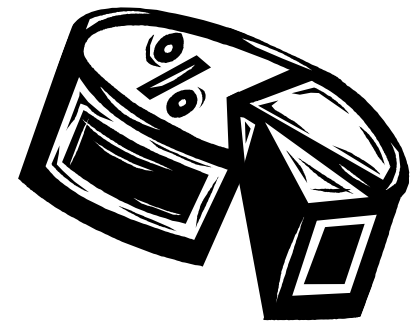
#### **Prior Approval Program -**

- **90% Guarantee:**

- ✓ All veteran owned & service disabled 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 BLOC counted as additional available working capital!**
- **Total bonding capacity typically double that of traditional surety!**
- **Exception available for insufficient financial statement preparation!**





## Business Size Eligibility

**Business (including affiliates and subsidiaries) must be small for the primary industry it and the affiliates are engaged in**

- Based on average annual revenues for the last three fiscal years compared with established NAICS (North American Industry Classification) Codes size standards
  - Construction Firms –
    - **\$ 15 million** for specialty trades such as:
      - ✓ electrical (238210) or roofing (238160)
    - **\$ 36.5 million** for heavy construction such as:
      - ✓ commercial construction (236220) or highway, street and bridge (237310)
  - Service, supply and manufacturing firms may also be eligible
  - [www.sba.gov/size](http://www.sba.gov/size)





## Contract and Bond Eligibility

- **Maximum Contract Size: \$6.5 million**
  - ✓ Up to \$10 million on Federal prime contracts with contracting officer certification
- **The small business and its owners must:**
  - ✓ Certify they need a bond and are unable to obtain it elsewhere with reasonable terms
  - ✓ Not be debarred from doing business with the Federal Government
  - ✓ Not be on probation or parole or in bankruptcy
  - ✓ Must be current on all taxes



## Bond Application Package

Additional information may be required based on individual surety requirements.

Business financial statements

- Last three fiscal year-ends plus current interim

Owner's personal financial statements

Bank relationship information




### **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**

- Job Specific



## QuickApp for Jobs Up to \$250,000

- *FAST* Approval
- **Relaxed SBA Underwriting**
  - **Eliminates Business and Personal Financial Statements for SBA**
- All Types of Work Excluding Environmental, Demolition, Timber Sales and Projects Already Underway
- **Liquidated Damages Up to \$1,000/Day and Maintenance Terms Up to Two Years**
- Same Guarantee Percentages





## Fees for SBA Bond Guarantees

- **Bid Bonds:** No fee
- **Performance/Payment/Maintenance Bonds:**



- ✓ SBA Guarantee Fee: .729% of the Contract Amount
- ✓ Surety's Bond Premium: 1.5% - 3% of the Contract Amount
  - Surety pays SBA 26% of the premium collected from the small business

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



## 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:**

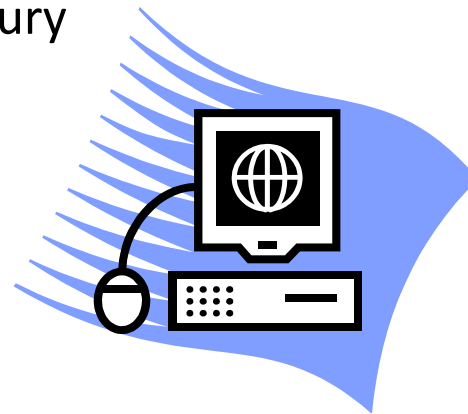
\$ 9,000	1.8 % Surety's Bond Premium ( $\$500,000 \times 1.8\%$ )
<u>3,645</u>	.729% SBA's Guarantee Fee ( $\$500,000 \times .729\%$ )
<b><u>\$12,645</u></b>	<b>Total Cost for Bonds</b>





## Pay.Gov Electronic Fee Payments

- Free Service of the U.S. Treasury
- Register at [www.pay.gov](http://www.pay.gov)
- **Eliminates Fee Checks**
- Pay SBA Bond Guarantees Online
  - ✓ ACH, Debit or Credit Card





# Application Process

1. Small business contacts SBA approved bond Agent requesting assistance
2. **Agent evaluates application package**
3. Agent approaches SBA Surety for approval
4. **Agent applies for a bond guarantee to SBA electronically on behalf of small business when required by Surety\***
5. SBA staff reviews & approves qualified applications in 3 Area Offices based on the location of the small business
  - ✓ **currently less than 2 days on average**
6. Agent provides bond to the small business so that work may begin

**\*Participating Sureties may bond a business with or without an SBA guarantee or decline to bond the business if it does not qualify.**



## Locating an SBA Approved Bond Agent

- Use SBA's list of Bonding Agencies by State available at: [www.sba.gov/osg](http://www.sba.gov/osg)
- Contact an SBG Area Office or SBA District Office for a referral







# Florida Agents

Alter Surety Group  
Miami Lakes, FL  
(305) 517-3798

Cecil Powell & Co  
Jacksonville, FL  
(904) 353-3181

InSource  
Miami, FL  
(305) 670-6111

Security Bond Assoc  
Miami, FL  
(305) 552-5414

Unique Surety & Insurance  
Palm Beach Gardens, FL  
(561) 429-3600

Associates Insurance  
Temple Terrace, FL  
(813) 988-1234

FSB Agency  
Pembroke Pines, FL  
(954) 323-3587

Joseph Johnson & Co  
Orlando, FL  
(407) 843-1120

Smith Insurance & Bonds  
Ft. Meyers, FL  
(239) 560-0137

Waldorff Insurance & Bonding  
Gainesville, FL  
(352) 374-7779

Bonds Only  
Jacksonville, FL  
(904) 733-8885

Fisher Brown Botrell Ins  
Pensacola, FL  
(850) 432-7474

MB Underwriters  
Pensacola, FL  
(850) 478-0400

Suretegrity  
Ponte Vedra Beach, FL  
(888) 951-8680

Bowen, Miclette & Britt  
Maitland, FL  
(407) 647-1616

Florida Surety Bonds  
Maitland, FL  
(888) 786-2663

Matson-Charlton Surety  
Coral Gables, FL  
(305) 662-3852

Surety Services Unltd  
St. Petersburg, FL  
(813) 400-0235

Brown Insurance Services  
Panama City, FL  
(850) 596-9598

Greene-Hazel & Assoc  
Jacksonville, FL  
(904) 398-1234

Neilson Hoover & Co  
Sandford, FL  
(407) 330-3990

Whitehead Agency  
Altamonte, FL  
(407) 831-4424

C & D Insurance  
Jacksonville, FL  
(904) 292-0803

Heacock Insurance  
Sebring, FL  
(863) 385-5171

Roger Bouchard Ins  
Clearwater, FL  
(727) 447-6481

USI Insurance Services  
Jacksonville, FL  
(904) 669-0729



## SBG Program Primary Contacts

**Tamara E. Murray**  
**Underwriting Marketing Specialist**  
**(303) 927-3479**

**[tamara.murray@sba.gov](mailto:tamara.murray@sba.gov)**

**Denver Area Office**

721 19th Street #426  
Denver, CO 80202

**Jennifer Vigil**

Area Director  
(303) 927-3489

Servicing Small Businesses in:  
CO, IL, IN, IA, KS, MI, MN, MO, MT,  
NE, NJ, ND, OH, PA, SD, UT, WI,  
WY, Puerto Rico & Virgin Islands

**Tamara E. Murray**

Eastern U.S. + CO Marketing  
(303) 927-3479

**DC Area Office**

409 Third Street SW #8600  
Washington, DC 20416

**Peter C. Gibbs**

OSG Deputy Director  
(202) 205-6548

Servicing Small Businesses in:  
AL, CT, DC, DE, KY, MA, MD, ME,  
MS, NH, NY, RI, TN, VA, VT & WV

**Seattle Area Office**

2401 4th Avenue #450  
Seattle, WA 98121

**M. Catharine Powers**

Area Director  
(206) 553-8541

Servicing Small Businesses in:  
AK, AR, AZ, CA, FL, GA, HI, ID,  
LA, NV, NM, NC, OK, OR, SC, TX,  
WA & Guam

**Linda M. Laws**

Western U.S. Marketing  
(206) 553-7317