



U.S. Small Business Administration

Richmond District Office
400 N. 8th St., Suite 1150
Richmond, VA 23219

SBA – The Surety Bond Guarantee Program

The Surety Bond Guarantee Program provides small and minority contractors and qualified HUB-Zone contractors with contracting opportunities for which they could not otherwise compete. By law, prime contractors to the federal government must post surety bonds on federal construction projects valued at \$100,000 or more. Many state, county municipal and private-sector contracts also require bonding, but small and minority businesses may not be able to obtain bonds through regular commercial channels. Through this program, the U.S. Small Business Administration can guarantee bid, performance and payment bonds for contracts up to \$2.0 million for eligible small contractors.

A surety bond is a three-way agreement between the Surety Company, the contractor and the project owner. It binds the contractor to comply with the terms of a contract. If the contractor is unable to do so, the surety assumes the responsibility and ensures that the project is completed. The SBA guarantees surety companies against a percentage of losses sustained as a result of a contractor's default on a guaranteed bid, payment or performance bond.

There are four major types of surety bonds:

***Bid** – guarantees the bidder will enter into a contract and furnish the required payment of performance bonds.

***Payment** – guarantees payment from the contractor to parties who furnish labor, materials, equipment and supplies.

***Performance** – guarantees the contractor will fulfill the contract in accordance with its terms.

***Ancillary** – bonds which are incidental and essential to the performance of the contract.

The SBG Program consists of the **Prior Approval Program** and the **Preferred Surety Bond Program**. Under the Prior Approval Program the guarantee may range from 80 to 90 percent of the losses sustained under a guaranteed bond, and the surety must obtain SBA approval for each bond. Under the Preferred Surety Bond Program, selected sureties receive a 70 percent bond guarantee and are authorized to issue, service and monitor bonds without the SBA's prior approval.

Eligibility

Contractors – In addition to meeting the surety's bonding qualifications, a contractor must meet the SBA's size eligibility standards for a small business. Your SBA district office can answer any questions regarding eligibility.

Bonds – The SBA can guarantee bonds for contracts up to \$2.0 million. A contract bond (bid, performance or payment) is generally eligible for a SBA guarantee if the bond is –

*Listed in the Contract Bonds section of the Surety Association of America's *Manual Rules, Procedures and Classifications*;

*Required by the contract or invitation to bid; and

*Executed by a surety company that is acceptable to the U.S. Treasury (circular 570) and qualified by the SBA.

Ancillary bonds may also be eligible. For more information, contact your SBA district office.

Submitting an Application

The contractor chooses a participating surety company and applies for a specific bond through a bonding agent who represents that surety. The application provides the background, credit and financial information required by the Surety Company and the SBA.

Once the surety company receives the completed forms and sufficient underwriting information from the applicant, and decides whether to –

*Execute the bond without SBA's guarantee,

*Execute it only with the SBA's guarantee, or

*Decline the bond even with the SBA's guarantee.

If a surety in the **Prior Approval Program** determines that the SBA must guarantee the bond, it submits an underwriting review, guarantee agreement, supporting documents, and the contractor's application forms to the SBA. If the application is for a final bond, the contractor's guarantee-fee check is also attached.

A surety in the **Preferred Surety Bond Program** may issue the bond without the SBA's approval. The surety must then report the bond to the SBA and forward the contractors' fee payment within the required time.

Application Review

In the Prior Approval Program, the SBA reviews the information, documentation and underwriting rationale of the surety company to determine if the application is eligible for the program. If it is, and the information submitted by the surety company appears favorable, the SBA guarantees the bond (the SBA may also request additional information).

Fees

The SBA charges fees to both the contractor and the surety company; rates are published periodically in the *Federal Register*. The SBA does not charge the contractor a fee for an application or a bid-bond guarantee.

When the bond is issued, the contractor pays the Surety Company's bond premium. This charge cannot exceed the level approved by the state in which the bond is issued.

For More Information:

Internet – www.sba.gov/OSG

Below is a list of local Agents most frequently utilizing the SBG:

John Hughes
Construction Bonds, Inc.
9401 Lee Highway, Suite 208
Fairfax, VA 22031
(703) 934-1000
(703) 934-1009 (fax)
Email: info@sbabonds.com
Website: <http://www.sbabonds.com>

Jim Jones
Contractor's Services, Inc.
3 Talbott Avenue, Suite 202A
Timonium, MD 21093
(410) 453-0925
(410) 453-0928 (fax)
Email: JFJCSI@aol.com
Website:

Diane Armstrong
Delmarva Surety Associates, Inc.
Harvest Building
2345 York Road, Suite BO12
Timonium, MD 21093
1-877-276-3636
Email: darmstrong@delmarvasurety.com
Website: www.delmarvasurety.com

Mark Congdon
Freedom Bonding, Inc.
11100 Liberty Road, Suite H
Randallstown, MD 21133
(410) 922-2221
(410) 922-9992 (fax)
Email: markcongdon@freedombondinginc.com

Charlene Reynolds, CEO
Creative Insurance Concepts, Inc.
7206 Hull St. Rd., Suite 200
Richmond, VA 23235
(804) 674-8330
(804) 674-8332 (fax)
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Tom Brown
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