SBA's Surety Bond Guarantee Program Temporarily 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, the SBA can temporarily guarantee bonds on contracts up to $5 million for small businesses that otherwise couldn't obtain bonds through standard channels. The previous limit was $2 million, and the higher limit is available until Sept. 30, 2010. In addition, SBA is working on implementing another Recovery Act provision that will allow in some cases SBA to guarantee bonds on contracts up to $10 million.

Small business contractors can overcome challenges they face in winning government or 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. If the contractor is unable to successfully perform the contract, the surety assumes the contractor's responsibilities and ensures that the project is completed. Under SBA's surety bond guarantee program, SBA reimburses the surety between 70 and 90% of the costs incurred if a contractor defaults.

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,. This means that your company, together with your affiliates, must meet the small business size standard for the industry in which your company is primarily engaged, as defined by 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 bonding agent who represents an SBA surety company 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 charged a contractor by the surety company for a surety bond is called the "bond premium." The SBA also charges fees to both the contractor and the surety company. SBA charges the contractor a guarantee fee of $7.29 per thousand dollars of the contract amount, and charges the surety 26 percent of the premium that the surety charges the contractor. SBA does not charge a fee for bid bond guarantees.

For more information about the Surety Bond Guarantee Program visit: **www.sba.gov/osg/**.

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.