U.S SMALL BUSINESS ADMINISTRATION
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TESTIMONY OF

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BEFORE THE

SUBCOMMITTEE ON CONTRACTING AND WORKFORCE
HOUSE COMMITTEE ON SMALL BUSINESS
U.S. HOUSE OF REPRESENTATIVES

"CONSTRUCTION CONTRACTING: BARRIERS FOR SMALL BUSINESS CONTRACTORS"

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Thank you Chairman Mulvaney, Ranking Member Chu and members of the Subcommittee. I am pleased to be testifying before you today on the topic of surety bonds.

The U.S. Small Business Administration (SBA) Surety Bond Guarantee program was established in 1971 to help small businesses obtain the surety bonds that are often required as a condition for award of a construction contract or subcontract. As you know, the Federal government requires a surety bond on any construction contract valued at $150,000 dollars or more. Surety bonds are also required on many State, local government and commercial contracts and subcontracts.

In our surety bond program, SBA guarantees bid, performance and payment bonds for eligible small businesses that cannot obtain surety bonds through the conventional surety market. SBA's guarantee gives surety companies an incentive to provide bonding for small business contractors who they might otherwise perceive as too risky to bond without an SBA-guarantee. These bonds help small and emerging firms gain access to contracting opportunities in the commercial and government markets.

As many of you know, when the economic downturn occurred a few years ago, construction was one of the hardest hit sectors. In spite of the downturn, however, the SBA bond guarantee volume grew every year over the past five years. We also saw an increase in the number of participating surety companies and agents. When Congress passed the American Recovery and Reinvestment Act in February of 2009, SBA was given the authority to temporarily increase the surety bond contract ceiling to $5 million dollars.

This change was well received by the surety industry and the small business community, and we noticed a significant uptick in bond volume. The Recovery Act infused new life into the surety bond program as seen by the increase in program activity in fiscal year 2010. The total number of bonds guaranteed in that year represented a 36% increase over the previous fiscal year. In fiscal year 2010, SBA guaranteed a total of 8,348 bonds representing a contract value contract value of $4 billion dollars.

Building on that success, SBA has continued to make outreach and awareness of the surety bond program a priority. We have been working closely with our local district offices and industry partners to let small businesses know how they can take advantage of our program.

We have also been listening closely to our industry partners and small businesses on how we can make the program better and more accessible to a greater number of firms. Recently, we developed an automated tool to complement the electronic bond guarantee application, which we implemented a few years ago. Surety companies, agents, and small businesses, can now upload a variety of underwriting documents and transmit them electronically to our field offices. This helps make the processing time faster and reduces compliance costs.

This week, we will be publishing a proposed rule that will adopt a streamlined application process for any bond guarantee on a contract valued up to $250,000. This new "Quick Application" process will reduce paperwork requirements for smaller contracts. As a result, small businesses and surety agents will navigate the bond application process more easily and the cycle time between application and approval will be compressed.

But we are not stopping there. In addition, like every other agency in the Administration, SBA has been tasked with undertaking a full review of our current regulations. In response to industry concerns that certain requirements imposed on surety companies are no longer consistent with industry best practices, our office is trying to update, streamline, and simplify the surety bond regulations.
We look forward to working closely with you and your staff on each of those initiatives.
I appreciate the opportunity to testify before you today and I welcome any questions.

Thank you.

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