

The U. S. Small Business Administration's Surety Bond Guarantee Program provides surety bond guarantees for small businesses on federal, state, local, and commercial construction, service and supply contracts and subcontracts in direct partnership with surety companies and their agents. A list of surety companies and bond producers participating in the SBA program is provided at www.sba.gov/osg.



SBG Program Overview

The Surety Bond Guarantee (SBG) Program helps small and emerging contractors who have the knowledge and skills necessary for success, but lack the combination of experience and financial strength to obtain bonds through regular commercial channels. SBA guarantees bid, payment and performance bonds issued by surety companies and reimburses the surety between 70% and 90% of the loss if the contractor defaults. This government guarantee allows sureties to write bonds for contractors who do not otherwise meet their minimum standards—thus providing small and underserved contractors with increased contracting opportunities.

The Office of Surety Guarantees administers the SBG program as a partnership between the federal government and the surety industry. The program has two components: the Prior Approval Program and the Preferred Surety Bond Program.

A surety company certified by the U.S. Treasury Department to issue bonds (as listed in Department of Treasury's Circular 570) may apply for participation in the SBG program.

Eligibility

The contract or subcontract amount cannot exceed \$6.5 million. SBA can guarantee a bond for a contract up to \$10 million if a Federal contracting officer certifies that SBA's guarantee is necessary for the small business to obtain bonding. The bond amount may not be in excess of the contract amount.

In addition to satisfying the surety company's bonding qualifications, the contractor must meet the following SBA eligibility requirements :

- It must qualify as a small business under federal regulations contained in Title 13, Part 121 of the Code of Federal Regulations.
- It must possess a good reputation and must not presently be debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from transactions with any federal agency.
- Surety underwriting consists of evaluating a contractor's capability and capacity to perform, its character and financial strength. There must be a reasonable expectation that the small business can successfully complete the contract.
- Sureties often encounter contractors who are just starting their own businesses. A contractor may not have the financial resources to satisfy traditional surety underwriting requirements. The SBA guarantee provides the surety with sufficient financial backing to permit issuance of the bond.

The SBG Program has two components: the Prior Approval Program and the Preferred Program. Participating surety companies must be approved by the Department of the Treasury and identified on U.S. Treasury Circular 570.

The Prior Approval Program

Under the Prior Approval program, SBA must approve each bond guarantee individually, based on information submitted by the surety. SBA's guarantee percentage is 90% if the contract is \$100,000 or less or if it is awarded to a socially and economically disadvantaged, HUBZone, 8(a), veteran-owned, or service disabled veteran-owned firm. Otherwise the, SBA's guarantee is 80%. Generally, the surety bond agent or producer reviews the contractor's application package and recommends it to the surety company for approval. If the surety company agrees to issue the bond with the SBA guarantee, the full application package is forwarded to the appropriate SBA Area Office for evaluation.

If SBA determines that the applicant is eligible, and there is reasonable expectation of successful contract performance, SBA issues a guarantee within 5 days to the surety company. The surety then issues the bond to the contractor. SBA's guarantee agreement is with the surety company on behalf of the small business.

Quick Bond Application for Prior Approval Program

The Quick Bond Guarantee Application is for contracts valued at \$250,000 or less, and combines the contractor application and SBA's bond guarantee agreement with the surety into one easy-to-use form.

This streamlined application significantly reduces paperwork for both contractors and surety companies participating in SBA's Prior Approval Program and reduces processing time.

Preferred Surety Bond Program

This program authorizes selected sureties to issue, service, and monitor bonds without prior SBA approval. The SBA guarantee is 70%.

To participate in the program, the surety company:

- Must have an approved underwriting authority of at least \$2 million;
- Cannot have premium income from contract bonds guaranteed by SBA and other government agencies exceeding one-quarter of its total contract bond premium; and
- Cannot delegate its underwriting and claims settlement authority outside of its own employees.



How to Apply

Contractors should contact a surety company or surety bond producer who represents a surety company that participates in the SBG program. A list of participating surety companies and surety bond agents and producers, application instructions for both electronic and paper submissions and other program information and required application forms are provided on SBA's website at www.sba.gov/osg or can be obtained by calling SBA's Office of Surety Guarantees

Required Forms Include:

912—Statement of Personal History

This form must be completed on first application by the proprietor; each partner in a partnership; each officer; director; or holder of 20% or more voting stock in a corporation; and any other person who has authority to speak for management. A Form 912 must be submitted whenever responses, ownership, or management changes.

991-Guarantee Agreement Addendum

This form is only necessary if the bond is issued after work has begun on the contract. SBA considers the work in progress when a contractor takes any action at the job site that exposes its surety to liability under applicable laws. Such actions include the purchase or delivery of material or actual construction.

994-Application for Surety Bond Guarantee Assistance

This form contains specific questions relating to the contractor's business size, type, and ability to obtain bonding. Additionally, it contains the debarment certification and certifications that a bond is required and not obtainable on reasonable terms without SBA's guarantee. The amount of work subcontracted must not be so excessive as to relegate the contractor to broker or packager status. This form also contains brief summaries of various federal laws and executive orders that affect the contractor's business and gives applicants notices of these laws.

994F-Schedule of Uncompleted Work on Hand

This form is required initially and then at least quarterly. It lists all uncompleted work, both bonded and unbonded. Other forms may be used if they provide the same information. Once the forms are completed, the surety bond producer submits them to the surety company, which processes and underwrites the application in the same manner as any other contract bond application. When the bond is issued, the contractor pays the surety the premium for the bond, which is usually a small percentage of the contract price. The premium cannot exceed the level filed with the appropriate state regulatory body. There is no cost for applying for a bond. SBA charges the contractor \$7.29 per thousand of the contract amount for payment and performance bond guarantees, but does not charge a fee for a bid bond guarantee.