



**“We Open Doors to Bonding”  
for Small Business**

**Surety Bond Guarantee Program  
for Small Business**



*U.S. Small Business Administration*



## The Small Business Struggle

**Contract surety bonds are a form of credit.**

**Each bond constitutes a financial obligation for you and the surety.**

**Small businesses may struggle to qualify for bonding due to limited capital, credit or capacity.**

**THE STRUGGLE WITH REAL**

**Sureties underwrite each bond request for sufficient capital, credit and capacity at the time of application.**

**The initial bond application package includes financial statements, credit reports on majority owners, and information on available credit with banks and suppliers.**



## The SBA Advantage!

**Available balance on  
business bank line of  
credit counted as  
additional available  
working capital!**

**Available Working Capital  
+ Available BLOC =  
More Bonding Capacity**

**Total bonding capacity  
typically double that of  
traditional surety!**



**Exceptions to financial  
statement requirements  
available!**

**SBA accepts financial  
statements based on  
contract amount**



## Common Surety Terms

### **Principal:**

You, the small business.

### **Agent:**

representative of the Surety with power of attorney to issue bonds.

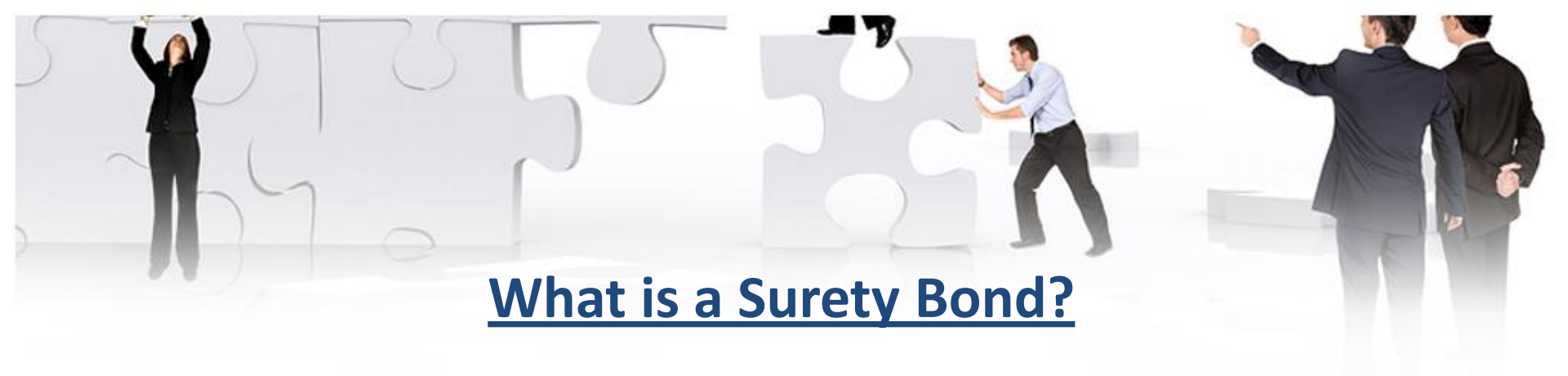
**Your primary relationship is with the agent.**

### **Surety (SBA Partner):**

corporate entity issuing bonds and legally responsible for paying claims in the event of default.

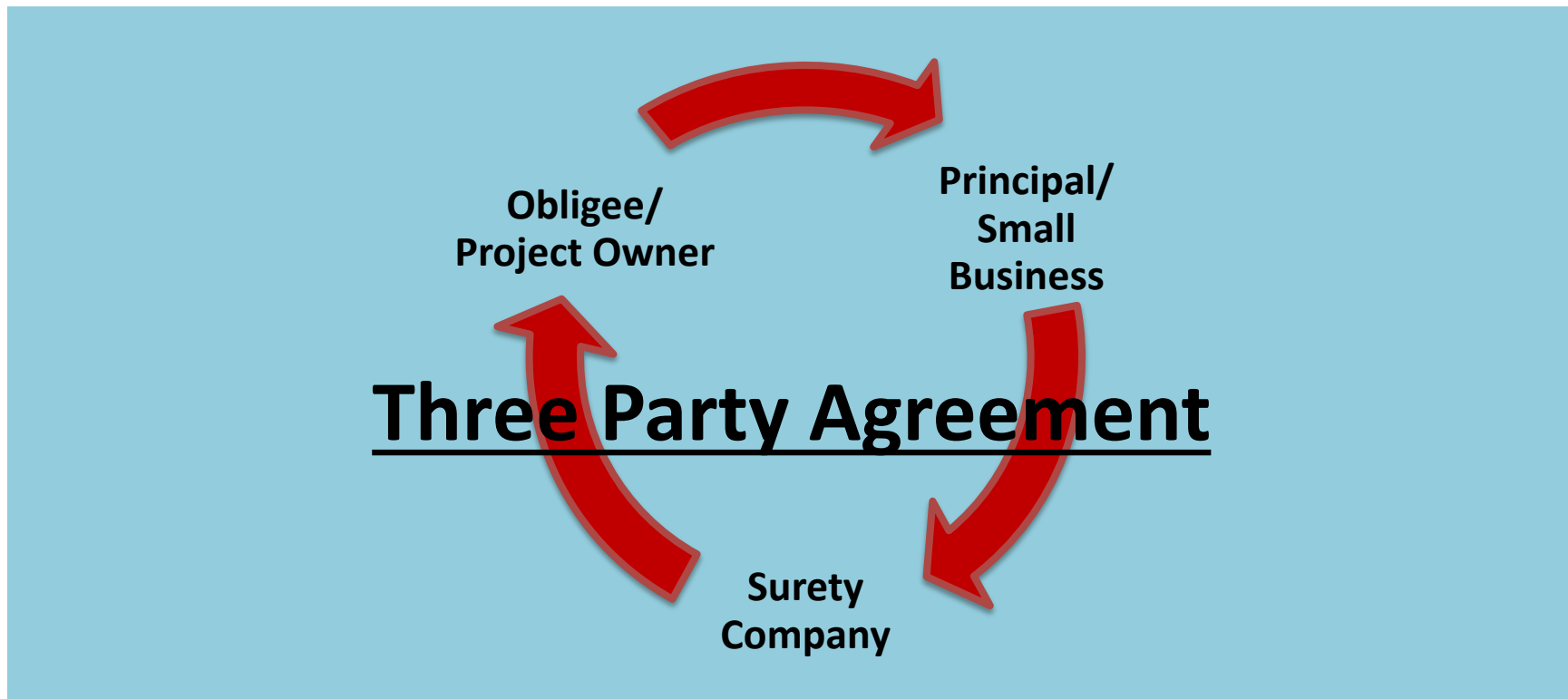
### **Obligee:**

project owner who contracts with you.



## What is a Surety Bond?

Use bonds instead of collateral whenever possible to conserve your working capital.





## Contract Bonds & What They Do

A **Bid Bond** guarantees that you will supply the required performance and payment bonds to secure the contract on award.

A **Performance Bond** guarantees that you will successfully complete the project in accordance with contract terms and conditions.

A **Payment Bond** guarantees that you will pay all subcontractors and labor and material suppliers for their work on the job.

A **Maintenance Bond** guarantees that you will remedy any defects in workmanship or materials within a specified time period following job completion, usually one to two years.



## **Why are Surety Bonds Required?**

**To ensure that contracts are properly completed, protecting the Obligee, subcontractors, and labor and material suppliers**

### **Federal Government**

Construction contracts greater than \$150,000 under provisions of the Miller Act  
Requirements vary on non-construction contracts

### **State, County & Local Governments**

Similar to federal, but with differing limits, referred to as “Little Miller Acts”

### **Private Sector**

Many private sector Obligees require surety bonds

**Bond requirements vary, so check your project specifications!**



## Pre-Qualification & Bonding Capacity

**Becoming bondable is similar to the process of obtaining bank credit - setting up initial bonding with a surety agent may take a few weeks**

**Pre-qualifying means knowing what your bonding capacity will be before bidding or negotiating**

Use to obtain bonding capacity without a specific bond application

Ask your agent for your capacity!

### Know Your Bonding Capacity

- Single contract limit (ex. \$500,000)
- Total aggregate capacity – bonded & unbonded (ex. \$6,000,000)





## Surety's Underwriting Focus

### Technical & Managerial Ability

- Past experience demonstrates ability to perform future projects
- Largest project Surety will bond is about two times largest successfully completed job
- Management controls & accounting

### Financial Statements

- Working capital, net worth, debt to equity ratio, profitability
- Quality financial statements
- CPA prepared financials typically required for \$1 million & larger jobs



### Credit Resources

- Fair or better personal credit history
- Available credit with banks & suppliers



## Working Capital = Bonding Capacity

Measures your business's ability to meet current and future financial obligations

Calculated from your balance sheet:  
Cash + A/R  
- Current liabilities  
Available working capital

Available working capital X 10 = estimated bonding capacity without SBA

**SBA counts the available balance on bank lines of credit as additional working capital. This SBA advantage increases your bonding capacity!**

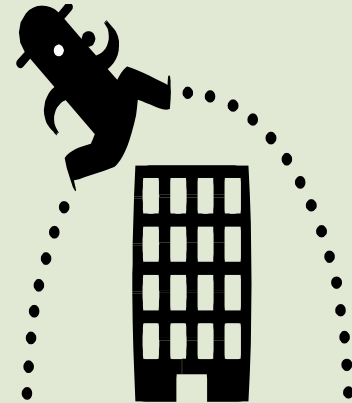
Available working capital + available BLOC X 20 = estimated bonding capacity with SBA bond guarantees



## Maximize Your Surety Credit!

### Retain Profits and Build Up Your Balance Sheet

- Increase working capital
- Increase net worth
- Decrease Debt/Net Worth Ratio



### Prepare Quality Financial Statements

- **Better Financials = More Bonding Capacity**
  - Internal – Qualify for jobs up to \$500,000
  - CPA Compilation – Qualify for jobs up to \$1 Million
  - CPA Review – Qualify for jobs over \$1 Million
  - CPA Audit – Typically only required from large businesses
- **It's an investment in your business!**



## SBA Surety Bond Guarantee Program

SBA's guarantee to the surety allows small businesses to obtain bid, performance, payment & maintenance bonds not available elsewhere with reasonable terms



**SBA assists construction, service, supply & manufacturing firms, including:**

- Start-ups & firms in business less than 3 years
  - Firms with limited financial resources
  - Firms with internal financial statements
    - Firms with credit issues
  - Firms wishing to increase largest job size
- Firms wishing to increase current bond limits



## Eligibility - Step One: Size

Business, including affiliates and subsidiaries, must be small

See [www.sba.gov/size](http://www.sba.gov/size) for size standards by NAICS code

### Construction, Service & Supply Firms

Based on average annual revenues for the last three fiscal years:

**\$7.5 Million** limit for some services such as landscaping (561730)

**\$15 Million** limit for most specialty trades such as electrical (238210)

**\$36.5 Million** limit for most heavy construction such as highway, street and bridge (237310)

### Manufacturing Firms

Based on number of employees:

**500 Employee** limit for most such as ornamental metal work (332323)



## Participant Qualifications

**Business must need a bid, performance or payment bond and be unable to obtain it elsewhere with *reasonable terms*.**

**Business must be a US entity organized for profit.  
Principal must be legal US citizen or resident.**

**Business and Principal must be eligible to do business with the federal government (not debarred).**

**Business and Principal must not be involved in a current bankruptcy proceeding.**

•SBG eligible immediately after discharge - surety requirements vary

**Business and Principal must be current on taxes and repayment agreements.**





## Does Your Contract Qualify?



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

- Two Page Application
- Decisions Within Hours
- No Financial Statements Required



### Up to \$6.5 Million

Any Obligee Type – Federal,  
State, Local, Private & GC



### Up to \$10 Million on Federal Prime Contracts

with Contracting Officer  
Certification to SBA HQ





## What Do I Need to Apply?



### **Business Financial Statements**

- Last three fiscal year-ends
- 6 month interim



### **Personal Financial Statements**

- Principals and spouses



### **Bank Reference Letter**

- Bank line of credit
- Authorized banks & credit unions



### **SBA Form 912 - Statement of Personal History**

- Once, unless ownership changes



### **SBA Form 994 - Application for Surety Bond Guarantee Assistance**

- Each bond guarantee request



Additional information may be required based on individual circumstances





## Counting the Cost

### Bid Bonds

No Fee

### Performance & Payment Bonds

#### SBA Contractor's Fee

.729% of the contract amount paid directly to SBA via [www.pay.gov](http://www.pay.gov)

#### Surety's Bond Premium

1.8% - 3% of the contract amount paid directly to your agent

- Ask your agent for your exact rate in each state

**Total bond costs typically included in bid estimates & initial pay requests to Obligees.**



## Pay SBA Online!

All SBA fees paid via  
[www.pay.gov](http://www.pay.gov)

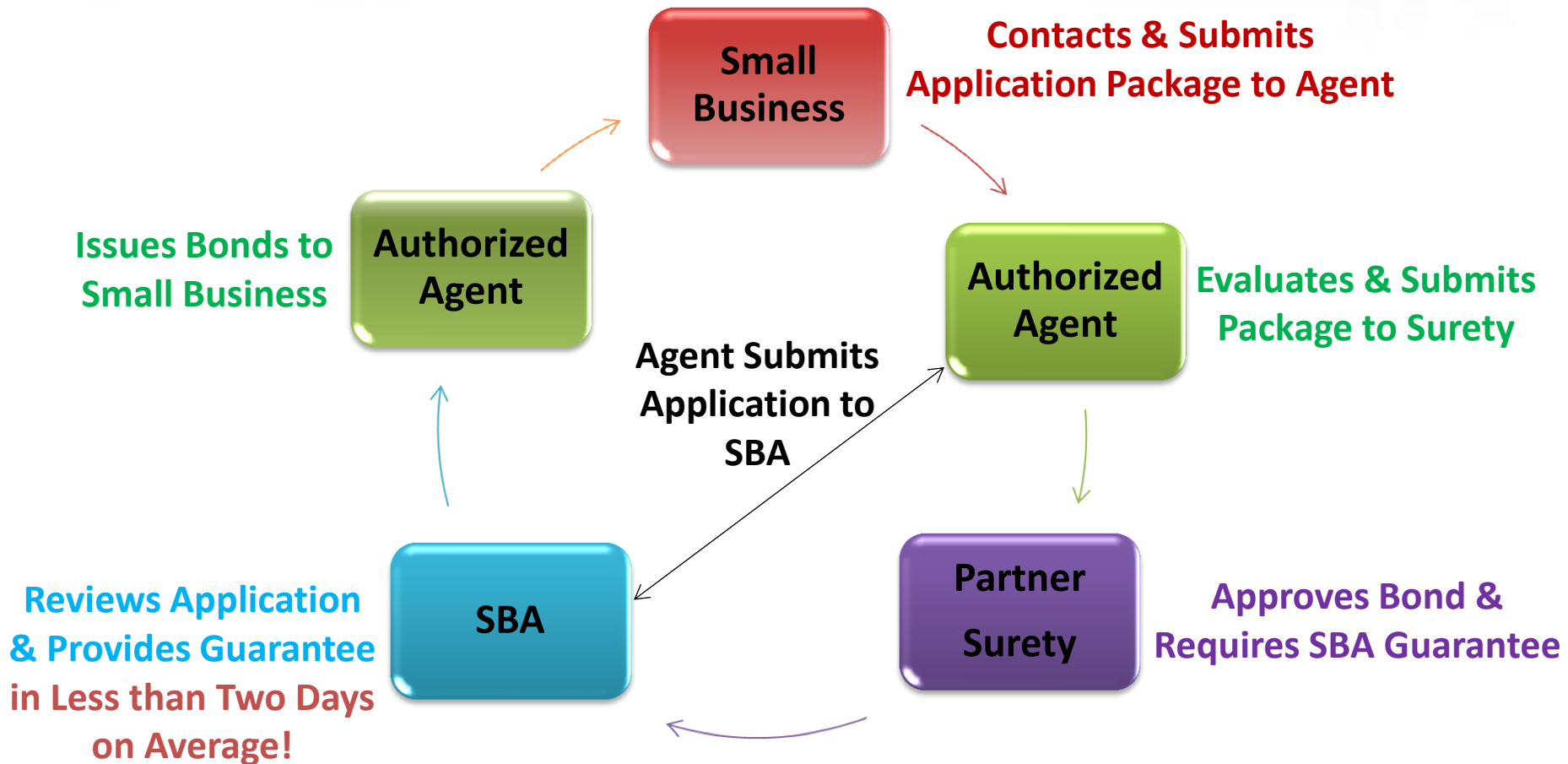
Free service of the U.S. Treasury

Choose your payment method:  
Please do not pay fees until requested

- ACH (Automatic Draft from Checking/Savings)
- Debit Card
- Credit Card



## The Application Process





## Locate an SBA Authorized Bond Agent



**Access SBA's List of Authorized Bonding Agencies:**

**[http://web.sba.gov/orasbgpub/dsp\\_welcome.cfm](http://web.sba.gov/orasbgpub/dsp_welcome.cfm)**

**Contact an SBG Area Office for a Referral**

**Contact your local SBA District Office for a referral**

**Ask your current agent to contact us if they wish to join the SBG Program as an authorized agent**



## Additional SBA Resources

### Loan Programs

CAPLines & SBA Express - Lines of Credit  
SBA 7(a) Loans/Microloans/Community Advantage  
Loans/Export & Disaster Loans

8(a) Business Development Program

Small Business Development Centers (SBDCs)

Women's Business Centers (WBCs)

Veteran Business Outreach Centers (VBOCs)

Procurement Technical Assistance Centers (PTACs)

U. S. Export Assistance Centers (USEACs)

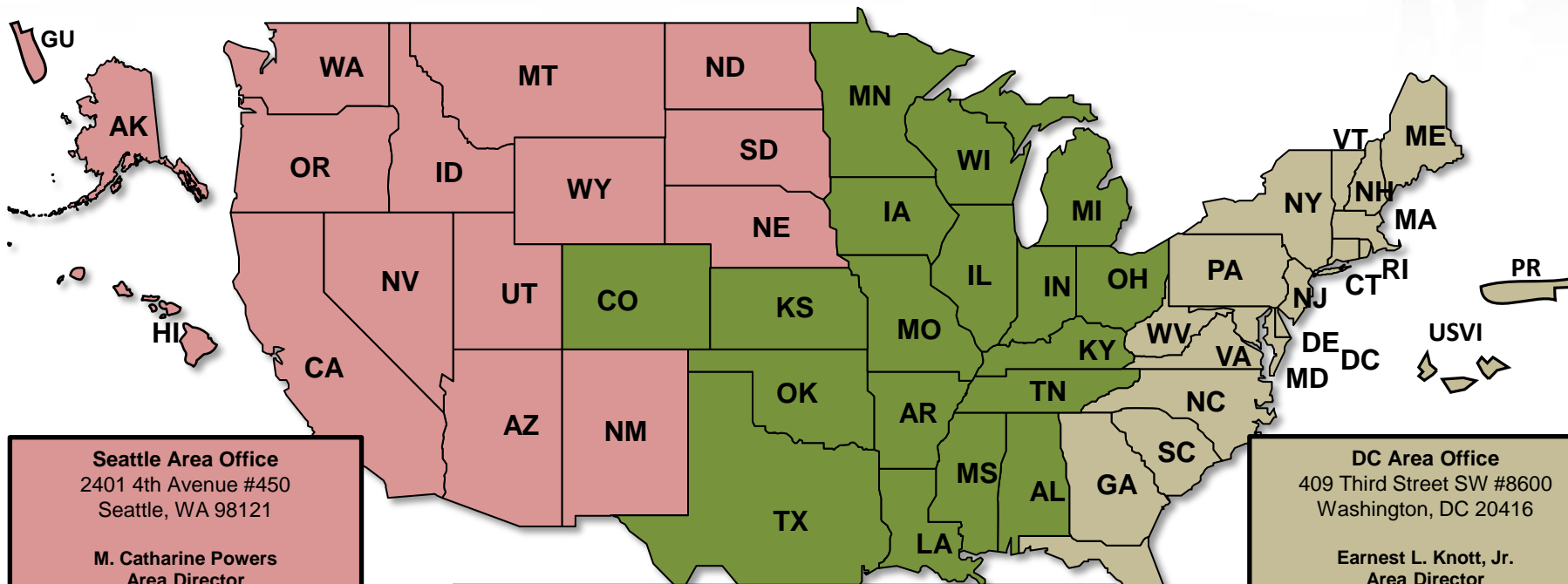
Service Core of Retired Executives Counseling Services (SCORE)

Contact your local SBA District office or [www.sba.gov](http://www.sba.gov)  
for additional information.



*"We open doors to bonding"*

## **SBG Program - Area Office Territories**



**Seattle Area Office**  
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**Servicing Small Businesses in:**  
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**Servicing Small Businesses in:**  
 CT, DC, DE, FL, GA, MA, MD, ME,  
 NH, NJ, NY, NC, PA, RI, SC, VA, VT,  
 WV, Puerto Rico & Virgin Islands