

SBA SURETY BOND PROGRAM

- **Background**

- Mission

To provide and manage surety bond guarantees for qualified small and emerging businesses in direct partnership with surety companies and their agents, utilizing the most efficient and effective operational policies and procedures. (The program was established to help small businesses obtain bonds who otherwise would not be able to obtain them in the traditional commercial marketplace.)

- Vision

A streamlined, risk based and customer focused program that motivates surety companies and agents to partner with SBA in support of the small business community.

A surety bond is an instrument executed by the owner of the project (the party awarding the contract) and the surety company. It protects the owner in the event the contractor defaults on the contract by paying the cost to complete the contract. (In exchange for the fee charged to the project owner for the bond, called a bond premium, the surety steps in to ensure the contract is completed.

There are primarily three types of construction surety bonds.

Bid bond: ensures the prospective contract recipient can obtain a performance bond, payment bond or both.

Performance Bond: ensures contract completion should the contract recipient default on the contract.

Payment Bond: ensures subcontractors and suppliers under the prime contract are paid for services and supplies delivered.

80% - of the loss incurred if the contract is greater than \$100K.

Additionally, each claim for reimbursement that is submitted by the surety is reviewed and approved by HQ claims specialist.

The following Surety Companies participate in the Prior Approval Program:

- American Contractors Indemnity Company
- Contractors Bonding & Insurance Company
- Hartford Fire Insurance Company
- Financial Pacific Insurance Company
- Great American Insurance Company of NY
- American Safety Insurance Company
- The Guarantee Company of North America

Preferred Program:

Under the Preferred Program, Surety companies are authorized to issue bond guarantees without SBA prior approval. Claims are submitted to HQ and a limited review is performed. Each Preferred Surety is subject to an on-site audit by an independent contractor at least once every three years.

SBA guarantees the Surety Company 70% of the bond amount, reimbursing the surety for reasonable, allowable/allocable costs.

The following Surety Companies participate in the Preferred Surety Bond Program:

- Western Surety Company
- The Explorer/Insurance Company of the West

Establishes NAICS Code as the single size criterion for determining small business size eligibility. (Eliminates \$7m standard for non-federal contracts)

Allows bond guarantees on federal contracts greater than \$5m and up to \$10 m based on a certification of need issued by the contracting officer. This will become effective following issuance of an Interim/Final Rule in April 2009.

Contacts:

www.sba.gov

OSG Phone No. (202)-205-6540