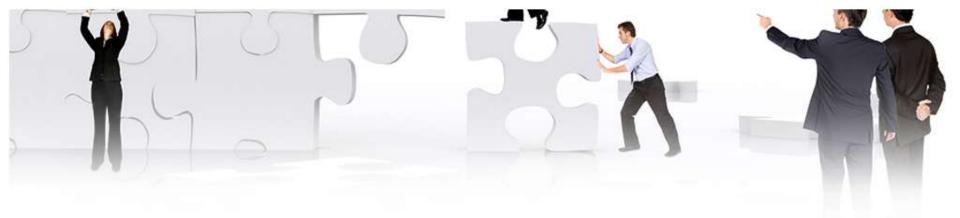
#### **BASICS ON SURETY BONDING**





#### JDMOORE INSURANCE BROKERS LLC 2765 SOUTH MAIN STREET, STE 105 KENNESAW, GEORGIA 30144

PRESENTED BY:
DEE MOORE, PRINCIPAL/OWNER



## WHAT SMALL AND EMERGING BUSINSSES AND CONTRACTORS NEED TO KNOW ABOUT BONDING UNDERSTANDING THE BASICS OF

UNDERSTANDING THE BASICS OF CONTRACT SURETY BONDS



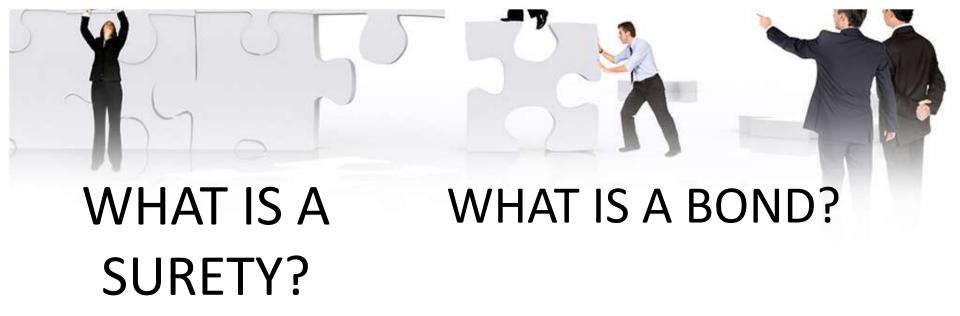
#### OBJECTIVES: The Basics of Bonds–TYPES/What to Look For

- Contract Surety Bonds:
  - ✓ Contract bonds & why they are required
  - ✓ Getting pre-qualified
  - ✓ What bond underwriters look for
  - ✓ Working capital & bank support

#### SBA Surety Bond Guarantee Program:

- ✓ Eligibility
- ✓ Required information
- ✓ Application process & fees
- ✓ Locating SBA certified agents





## WHAT IS A SURETY BOND?



 A SURETY BOND IS A PROMISE TO BE LIABLE FOR THE DEBT, DEFAULT, OR FAILURE OF ANOTHER PARTY

 THREE PARTY CONTRACT BY WHICH ONE PARTY, SURETY, GUARANTEES THE PERFORMANCE OF A SECOND PARTY





- <u>SURETY</u>-A COMPANY LICENSED TO PROVIDE SURETY BONDS TO THIRD PARTIES GUARANTEEING THE PERFORMANCE OF A PRINCIPAL
- PRINCIPAL-THE PERSON OR ENTITY ON WHOSE BEHALF THE BOND IS BEING ISSUED. THE SURETY GUARANTEES THE PRINCIPALS OBLIGATION
- OBLIGEE-INDIVIDUAL OR ENTITY WITH WHOM THE PRINCIPAL
   HAS THE CONTRACT AND TO WHOM THE BOND IS GIVEN



**Principal: (YOU)** small business/contractor or its owner(s).

**Surety**: (**INSURANCE COMPANY**) corporate entity legally responsible for paying claims after a Principal has defaulted and SBA's program partner. The Surety recoups paid claims from the Principal following default.

**Agent**: representative of the Surety authorized to issue bonds. They market and prepare applications to the Surety and SBA.

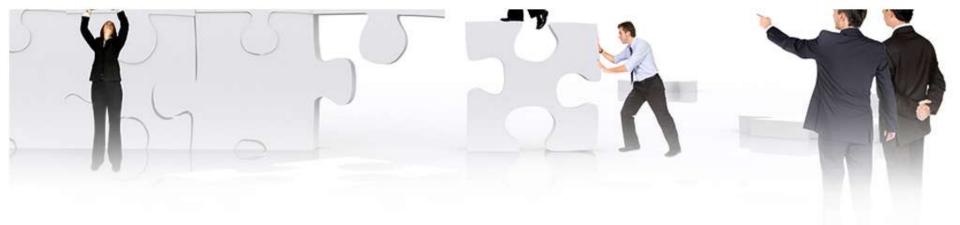
Obligee: (PROJECT OWNER) project owner who contracts with the Principal for the performance of a contract. If the Principal defaults on a project the Obligee is made whole by the Surety.



 ASSURE THE PROJECT OWNER THE CONTRACTOR IS QUALIFIED TO PERFORM THE WORK

 PROVIDES CREDIBILITY & SUPPORT TO THE PRINCIPALS

 FINANCIAL PROTECTION FOR: PROJECT OWNER, LABORERS, SUBS, SUPPLIERS



#### Why Surety Bonds are Required

Surety bonds are required on many projects to ensure that the contracts are properly completed, protecting the Obligee, subcontractors, labor and material suppliers.

**Federal Government**: all Federal construction contracts greater than \$150,000 require surety bonds under provisions of the Miller Act

**State, County & Local Government:** most other governmental entities have adopted similar provisions referred to as "Little Miller Acts"

Private Sector: many private sector Obligees also require surety bonds



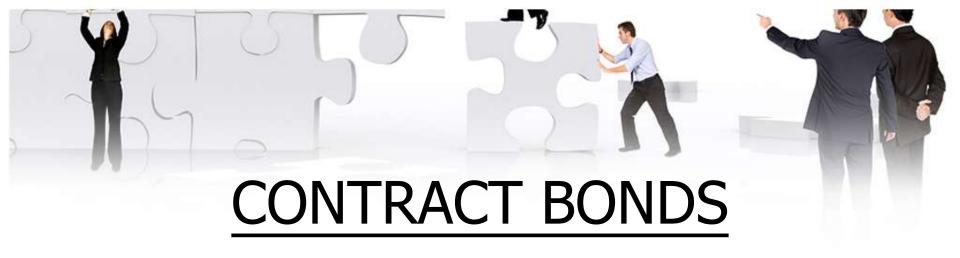


- ✓ Establish a history of successfully completing bonded jobs
- ✓ Bonded businesses are favorably viewed by agents and obligees
- ✓ Access new revenue streams through bonded jobs many GCs and other Obligees work only with bonded businesses
- ✓ Opportunity to grow as a prime contractor



#### Types of Bonds

- Bid-
- Performance
- Payment
- MAINTENANCE BOND



- **BID BOND-INSTRUMENT** OF PREQUALIFICATION: GUARANTEES THE OBLIGEE THAT THE BUSINESS OWNER IF AWARDED THE CONTRACT WILL HAVE THE OTHER BONDS
- PERFORMANCE BOND-GUARANTEES THE CONTRACT WILL BE SUCCESSFULLY COMPLETED IN ACCORDANCE WITH THE TERMS OF THE CONTRACT
- PAYMENT BONDS-GUARANTEES THE SUBS AND LABORERS AND MATERIAL SUPPLIERS WILL BE PAID
- MAINTENANCE-DEFECTS IN WORKMANSHIP WILL BE REMEDIED



#### Pre-Qualification - continued

- Becoming bondable is similar to the process of obtaining bank credit
- Ask your agent to help you get pre-qualified
- Allow plenty of lead time
- Setting up bonding may take several weeks



Ask your agent about establishing an SBA bonding line



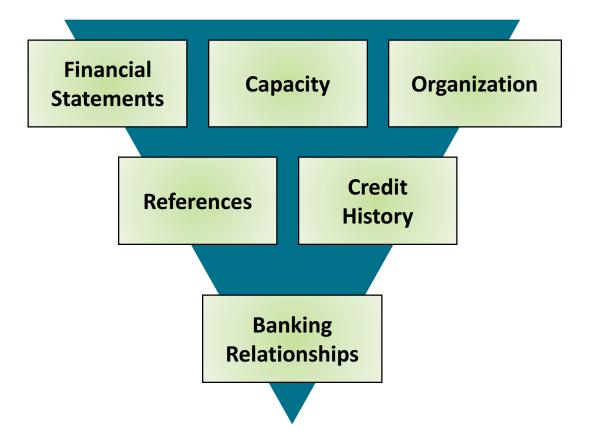
#### Surety's Underwriting Focus

- Technical & Managerial Ability
- Track Record past experience demonstrates ability to perform future projects
- Financial Statements (quality statements based on job size)
- Financial Resources (working capital, net worth, etc.)
- Profitability
- Credit Resources (banks & suppliers)
- Credit History (business and owners)





#### **Prequalification**





- Measures business's ability to meet current and future financial obligations
- Adequate working capital is essential to obtaining bonding
- Working Capital is calculated from the balance sheet.

Cash + Accounts Receivable + ½ of Inventory

- (+ Available BLOC Balance for OSG)
- Current Liabilities
- **= Allowed Working Capital**



A good banking relationship is important to obtaining bonding.

Agent will request information on:

- Accounts
- Cash Balances
- Bank Line of Credit (BLOC)



- ✓ BLOC SBA counts the available balance on a BLOC as available cash flow
- ✓ Get to know a banker before you need credit



#### Maximize Your Surety Credit

- Find an agent & be thorough in the information provided
- Get pre-qualified
- Retain profits and build up these important balance sheet items:
  - ✓ Working Capital
  - ✓ Net Worth
  - ✓ Debt/Net worth
- Prepare quality financial statements (CPA prepared is best)
- Obtain credit with bank & suppliers
- Document past contract performance





- ✓ Establish a history of successfully completing bonded jobs
- ✓ Bonded businesses are favorably viewed by agents and obligees
- ✓ Access new revenue streams through bonded jobs many GCs and other Obligees work only with bonded businesses
- ✓ Opportunity to grow as a prime contractor

# Sue Ha Fidelity Association of America Serving the Industry Since 1988

#### **Cost of Surety Bonds**

Bid Bond	No charge if performance and payment bonds are required
Performance Bond	0.5%-3% of contract price
Payment Bond	Price included with performance bond





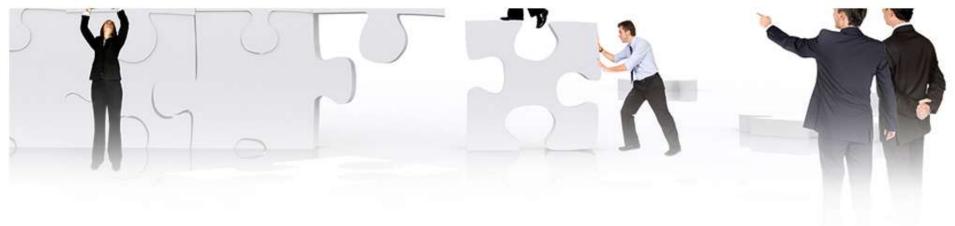
**Mission** - Provide surety bond guarantee assistance for new and existing small businesses by partnering with Surety companies and their Agents.

- SBA guarantee allows small businesses to obtain contract specific bid, performance and payment bonds not available elsewhere
- SBA's guarantee strengthens a small business's ability to compete in the construction market and secure bonded work
- Commonly requested bonds that are not eligible for an SBA guarantee:
   License Bonds, Subdivision Bonds, Financial Guarantee Bonds (except Timber Sales)



SBA has been assisting small and emerging businesses obtain surety bonds since 1972. SBA can help many small businesses including:

- Start-ups and firms in business less than 3 years
- Firms with limited financial resources (cash, working capital, net worth)
- Firms with recent losses
- Firms with limited track record in prior completed job size
- Firms with no prior public works/bonded work experience
- Firms wishing to increase current bond limits
- Firms with some credit issues



#### **SBA Surety Bond Guarantees**

SBA provides the Surety a guarantee of 80% or 90%, reducing the Surety's liability for each bond, allowing the Surety to issue bonds to businesses that would not otherwise qualify.

#### **Prior Approval Program**

- 90% Guarantee:
  - ✓ All veteran owned & service disabled firms
  - ✓ Minority owned businesses
  - √ 8(a) and certified HubZone businesses
  - ✓ All projects not exceeding \$100,000
- 80% Guarantee:
  - ✓ All other small businesses





NAICS (North American Industry Classification) Codes:

- Business (including affiliates and subsidiaries) must be small for the primary industry it and the affiliates are engaged in based on average annual revenues for the last three fiscal years
- Construction Firms
  - \$ 14 million for specialty trades such as:
    - ✓ electrical (238210) or roofing (238160)
  - \$33.5 million for heavy construction such as:
    - ✓ commercial construction (236220) or highway, street and bridge (237310)
- Service, supply and manufacturing firms may also be eligible
- www.sba.gov Search NAICS to locate Size Standard



#### Contract and Bond Eligibility

- Maximum Contract Size: \$6.5 million
  - ✓ Up to \$10 million on Federal prime contracts with contracting officer certification
- The small business and its owners must:
  - ✓ Certify they need a bond and are unable to obtain it elsewhere with reasonable terms
  - ✓ Not be barred from doing business with the Federal Government
  - ✓ Not be on probation or parole or in bankruptcy
- Bid, performance and payment bonds must be required by the contract



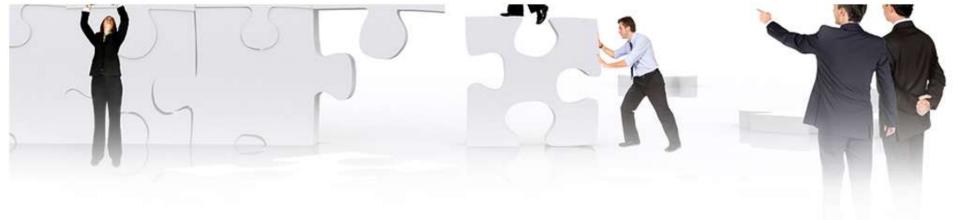
#### **Agent may request:**

- Contractor Questionnaire
- Owner's personal financial statements
- Company financial statements (3 years + current)
  - CPA prepared not required for jobs \$500,000 or less
- Bank relationship information
- Work on hand schedule
- Job references
- Principal's resumes
- General Indemnity Agreement

#### **SBA Forms**:

- SBA Form 994 Application for Surety Bond Guarantee Assistance
- SBA Form 912 Statement of Personal History





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

- FAST Approval
- All Types of Work Except Environmental Risks, Demolition & Timber Sales
- Liquidated Damages Up to \$250/Day
- Maintenance Terms Up to One Year
- No Aggregate Limit
- Relaxed SBA Underwriting No Credit Scoring
- Apply Prior to Start of Work
- No Previous Defaults, Claims or Complaints
- Eliminates WIP, Financial Statements & Other SBA Forms





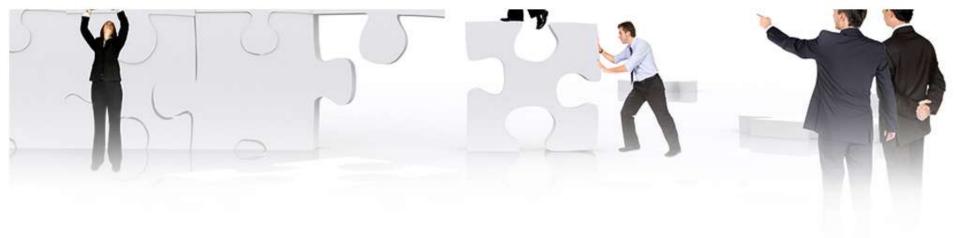
#### Fees for SBA Bond Guarantees

Bid Bonds: No SBA fee



- Performance and Payment Bonds:
  - ✓ SBA Guarantee Fee: .729% of the Contract Amount
  - ✓ Surety's Bond Premium: 1-3% of the Contract Amount

Include these costs in bid estimates and first pay requests to ensure reimbursement by the Obligee



#### Costs of Bonding Example

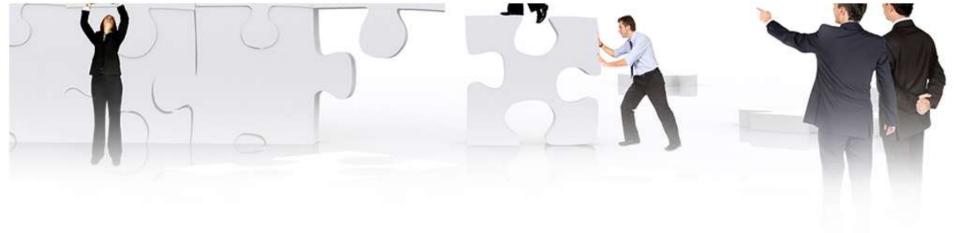
An 8(a) contractor received an SBA guaranteed bid bond and was subsequently awarded a \$500,000 Federal contract to install new energy efficient windows in three buildings at an airbase.

#### **Contractor's Bond Costs:**

\$ 9,000 1.8 % Surety's Bond Premium (\$500,000 X 1.8%)

3,645.729% SBA's Guarantee Fee (\$500,000 X .729%)

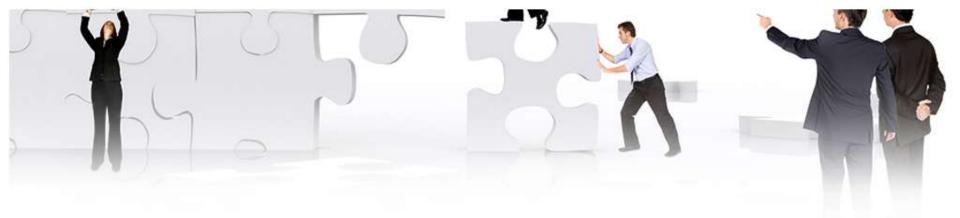
\$12,645Total Cost for Bonds



#### **Application Process**

- 1. Small business contacts SBA approved bond Agent requesting assistance
- 2. Agent evaluates credit, character and capacity and obtains Surety approval
- 3. Agent applies for a bond guarantee to SBA electronically
- 4. SBG Area Office reviews & approves qualified applications within 4 days currently less than 2 days on average
- 5. Agent provides bond to the small business

Note: A Surety may bond a business with or without an SBA guarantee or decline to bond the business if they do not qualify.



### Common Reasons SBA is Unable to Provide a Bond Guarantee

- Inadequate working capital
- Principal not a small business under SBA regulations
- Project size exceeds OSG limit
- Ineligible bond type





#### Locating an SBA Approved Bond Agent



Use SBA's list of Bonding Agencies by State available at: <a href="https://www.sba.gov/osg">www.sba.gov/osg</a>

- Contact an SBG Area Office for a referral
- Ask your current agent if they participate in SBA's Surety Bond Guarantee Program
- Agents contact <a href="mailto:suretybonds@sba.gov">suretybonds@sba.gov</a> to apply for participation