



Tonry Topics

OVERVIEW OF THE SBA SURETY BOND GUARANTEE PROGRAM

Tonry Insurance Group has been asked to participate in a webcast on August 9th at the Boston Office of the Small Business Administration regarding their Surety Bond Guarantee Program. Carl L. Traina, co-owner, and Jacquelynne R. Maloney representing the Quincy office of Tonry and Ed Mulcahy representing the Lexington office have been selected as the local experts based on premium dollars written within the SBA Surety Bond Guarantee Program. We will discuss the process we follow when handling SBA business in order to issue bonds as quickly and efficiently as possible to help other agents and contractors across the country.



T O N R Y
INSURANCE GROUP

How does the Small Business Administration's Surety Bond Guarantee Program (SBG) assist contractors to get bonds?

The SBA Surety Bond Guarantee Program does not issue surety bonds, but provides a guarantee to the participating sureties for bid, performance, and payment bonds. If during the underwriting process, the small business presents a degree of risk beyond what the surety is willing to assume, for example, limited working capital or lack of volume due to economic downturn, it can be considered for support. Under the SBG Program, the SBA guarantees between 80 and 90% of the losses and expenses incurred should the small business default and fail to complete the contract. This encourages the Surety to issue a bond that it may not have been able to support otherwise. There is also special consideration given to certified minority (WBE/MBE/8A) enterprises to grow their business.

Small Business Eligibility Requirements

- Your business must be classified as small. The business (combined with its affiliates) must not exceed the designated size, ranging from \$750,000 to \$35 Million in revenue, for the business' primary industry.

- Your business must be unable to obtain a bond without an SBA guarantee.
- The size of the public or private contract or subcontract cannot exceed \$2 million.
- The credit, capacity and character evaluations of the company's Principal must support issuance of a bond guaranteed by SBA.
- The contract must require a surety bond to be eligible.

What is a Surety Bond?

Surety bonds are required of general contractors on most public projects advertised by federal, state or local government agencies. Many subcontractors are also being asked to provide bonds in addition to an increasing number of private project owners requiring bonds.

A surety bond is an agreement under which the surety, guarantees the owner, that the contractor will perform a contract in accordance with the specifications. There are three types of Surety Bonds:

- Bid Bond:** Guarantees that the bidder on a contract will enter into the contract and furnish the required payment and performance bonds if awarded the contract.
- Payment Bond:** Guarantees that the suppliers of materials and subcontractors will be paid for work performed under the contract.
- Performance Bond:** Guarantees that the contractor will perform the contract in accordance with its terms and conditions.

Prequalification

Before issuing a bond the surety must verify that the contractor is of good character, has the experience that supports the anticipated projects, and has the equipment necessary to perform the work. The surety also wants to confirm that the contractor has the financial strength to support the desired work program, and has a history of paying subcontractors and suppliers promptly. Should the surety find the financial strength to be lacking, but the contractor is otherwise competent, we may recommend the assistance of the SBA Surety Bond Guarantee Program. Here is

Tonry Topics

the short list of information that would be required to apply for surety bonds:

- Resumes of owners and key people;
- Questionnaire outlining the type of work you do, how you obtain your jobs, the geographic area in which you operate, and your growth and profit objectives;
- List of largest completed jobs, including the name and address of the owner, the contract price, the date completed and the gross profit earned;
- Subcontractor and Vendor references including contact information;
- Evidence of a line of credit at your bank;
- Personal financial statements of owners;
- Current work in progress;
- Financial Statements, prepared on a percentage of completion basis for the last three fiscal year ends.



TONRY
INSURANCE GROUP

Tonry Insurance Group consists of two agencies, Albert J. Tonry & Co., Inc. and Tonry Northwest Insurance Agency, Inc., with three offices in Massachusetts; Quincy, Lexington and Webster. Please visit us on the Internet at www.tonry.com or www.facebook.com/TonryIns, follow us on Twitter at <http://www.twitter.com/TonryIns> or call us at (617) 773-9200.

Adequate Time is Crucial to Processing Information

Reviewing this information with the surety and establishing a program, especially if your business has not been bonded previously, can take a considerable amount of time. Please be sure to start the process well before signing any contracts that may need a bond. This advice is especially important if you might be considered for the SBG Program. Due to the nature of the program, and adding another layer to the application process, the amount of time it takes to review and approve any surety bonds is increased.

This article was prepared by Jacquelynne R. Maloney, CISR, a licensed property and casualty producer of Tonry Insurance Group, who also manages branding and social media marketing efforts for the agency. Please contact her directly at jmaloney@tonry.com or (617) 773-9200.