Application for contract surety bonds that small construction businesses can benefit from. The increase in the eligible contract amount enlarges the scope of project ...

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The Small Business Administration has introduced changes to its Surety Bond Guarantee Program that aim to present better opportunities for small-scale contractors. The new rules apply as of September 20, 2017 and was published in the Federal Register in August 2017.

The most important amendment raises the threshold for the SBA's Quick Bond Application for contract surety bonds that small construction businesses can benefit from. The increase in the eligible contract amount enlarges the scope of project opportunities that contractors can bid on. Another significant change that the SBA made is an increase to the guarantee percentage in its Preferred Surety Bond Program.

Through its Surety Bond Guarantee Program, the SBA makes bonding possible for a number of small contractors who would not be able to obtain it otherwise. It extends its guarantee in front of surety bond providers, so that they issue the bid, payment and performance bonds that contractors need in order to bid and work on projects.

The projects can be local, state, federal, and commercial. Their value should be below $6.5 million, or below $10 million for direct federal contracts in case there is a certification from a federal contracting officer. Contract bonds are required on all federal construction projects above $150,000.

Here is what small contractors should know about the SBA changes – and how they can use the new parameters of its programs.

The Quick Bond Application threshold increase

One of the two main instruments of the Surety Bond Guarantee Program is the Prior

the program. In New Jersey alone, there are more than 75,000 small construction companies that can use it now. Additionally, the change also entails a larger scope of projects that small construction businesses can consider.

The Preferred Surety Bond Program guarantee percentage increase

The SBA has introduced a major change in its second Surety Bond Guarantee Program instrument as well – the Preferred Surety Bond Program, also known as Plan B. Within this program, the SBA has authorized a selected number of sureties which can issue and monitor surety bonds to small contractors without the Administration's prior approval. The sureties must meet strict criteria, such as being on the U.S. Treasury List (Circular 570) and possess a minimum of $6.5 million approved underwriting authority, among others.

The SBA has now increased the guarantee percentage in the program from up to 70 percent to up to 90 percent, similarly to the Prior Approval Program. This option is available for contractors bidding on projects below $100,000, as well as for small businesses owned by veterans, disadvantaged individuals and certified HUBZone and 8(a) businesses. For other small businesses, the guarantee percentage is now 80 percent. The SBA fee for the guarantee remains 0.729% of the contract amount. The small contractor who needs to get bonded still needs to cover the surety bond premium.

The guarantee percentage increase means better security for the surety issuing the bond. In this way, more contractors are able to benefit from the Preferred Surety Bond Program, as sureties will be more likely to underwrite the needed bonds. Additionally, the SBA expects more sureties to participate in its Surety Bond Guarantee Program as a result of this guarantee percentage increase.

Have you used the Surety Bond Guarantee Program? How do you think the SBA's

business.

Small Business