

Surety Bonding

A surety bond is a three party agreement whereby the surety company guarantees the obligee (owner) that the principle (contractor) will perform a contract.

There are three primary types of contract surety bonds:

1. The Bid Bond provides financial assurance that the bid has been submitted in good faith and that the contractor intends to enter the contract at the bid price and provide the required performance and payment bonds.
2. The Performance Bond protects the owner from financial loss should the contractor fail to perform the contract in accordance with its terms and conditions.
3. The Payment Bond guarantees that the contractor will pay certain workers, subcontractors and suppliers.

The Small Business Administration Role in bonding:

The U.S. Small Business Administration (SBA) can guarantee bonds for contractors up to \$1.25 million, covering bid, performance and payment bonds for small and emerging contractors who cannot obtain surety bonds through regular commercial channels. SBA's guarantee gives sureties and incentive to provide bonding for eligible contractors, and thereby strengthens a contractor's ability to obtain bonding and greater access to contracting opportunities. A surety guarantee, an agreement between a surety and the SBA, provides that the SBA will assume a predetermined percentage of loss in the event the contractor should breach the terms on the contract. SBA's contractual relationship as it pertains to the guarantee, is directly with the surety company or its agents and/or managing general agents. It is the surety who issues the bond to a small business contractor. Therefore, a small contractor must first find an agent or surety company.

SBA points of contact for bonding:

Daniel Sossaman	Keturah Burrell	Dmitri Matishen
Acting Supervisor	SBG Specialist	SBG Specialist
Surety Bond Gty Spec.	215-580-2719	215-580-2720
215-580-2727	keturah.burrell@sba.gov	dmitri.matishen@sba.gov
Daniel.sossaman@sba.gov		

Finding Surety Producers and Brokers:

1. The National Association of Surety Bond Producers (NASBP)
This is an international organization of professional surety bond producers and brokers. NASBP represents over 5000 personnel who specialize in surety bonding, provide performance and payment bonds for the construction industry, and issue other types of surety bonds for guaranteeing performance, such as license and permit bonds. A list of producers can be found at the following website:

<http://www.nasbp.org/about1.cfm>

2. The Surety Association of America (SAA)

This is a voluntary, non-profit, unincorporated association of companies engaged in the business of surety. It presently has approximately 600 member companies that collectively underwrite the overwhelming majority of surety and fidelity bonds in the United States, and seven foreign affiliates.

<http://www.surety.org>

3. Local Surety Associations (LSAs)

These have been formed in most states to address local surety bond interests. To find an LSA in your state visit:

<http://sio.org/LSAdirectory.html>