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Revitalizing the SBA Bond Guarantee Program

The SBA Bond Guarantee Program (Program) was created to ensure that small and emerging contractors have the opportunity to bid on public construction work, grow their businesses and remain a viable part of the US economy. Surety bonds are a vital mechanism to protect taxpayers and workers on public construction projects from the danger of contractor default. Small businesses must have access to these bonds to obtain federal construction contracts, and the SBA program assists them in obtaining these bonds. However, over the years, the Program has become increasingly less effective. Significant reform is necessary to enhance the opportunities for small businesses.

Critical changes to the Program must be made to maximize bonds available to small businesses:

- Combine the SBA Prior Approval Program and the Preferred Program into one bond guarantee program, creating a unified model based on the Preferred Program concept, and implement the program in a fashion consistent with this concept.
- Increase the SBA guarantees to sureties so that they are up to 95% of the bond amount for 18 months and 90% thereafter.
- Make permanent the temporary increase in the size contract that can be guaranteed to \$5 million and up to \$10 million if a federal agency's contracting officer certifies that the guarantee is necessary.
- Make permanent the discretion given to the Administrator under ARRA to determine the Program's liabilities.

- Require the Administrator to reduce or waive fees paid by contractors and sureties in the Bond Guarantee Program for 18 months, with authority to extend the time period for such actions.
- Provide grants up to \$15,000 to women-, minority- and veteran-owned construction firms in order to obtain funds to hire professional services such as legal, accounting and other advisers.
- Create a system of due process in connection with the SBA Bond Guarantee Program so that sureties receive notice, a hearing and right to appeal if: 1) the SBA denies a surety's request to participate in the Program or eliminates a surety from the Program, or 2) denies a claim under a bond that the SBA has guaranteed.
- Require the SBA to track the contractors that participate in the program.
- Ensure that the SBA Bond Guarantee Program regulations keep pace with changes in law and practice in the construction and surety industries.
- Establish reporting mechanisms concerning the reason behind any proposed fee increase.
- Recognize that the SBA Bond Guarantee Program serves a useful public policy function and that it may not be self-sufficient each year.
- Provide grants to colleges, universities, vocational/technical schools, community colleges and business leagues or not-for-profit entities and trade associations to develop and administer a small business construction executive business and risk management curriculum.