

Surety Credit for Small & Emerging Businesses

Presented by:

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PILLAR GROUP
RISK MANAGEMENT



Objectives

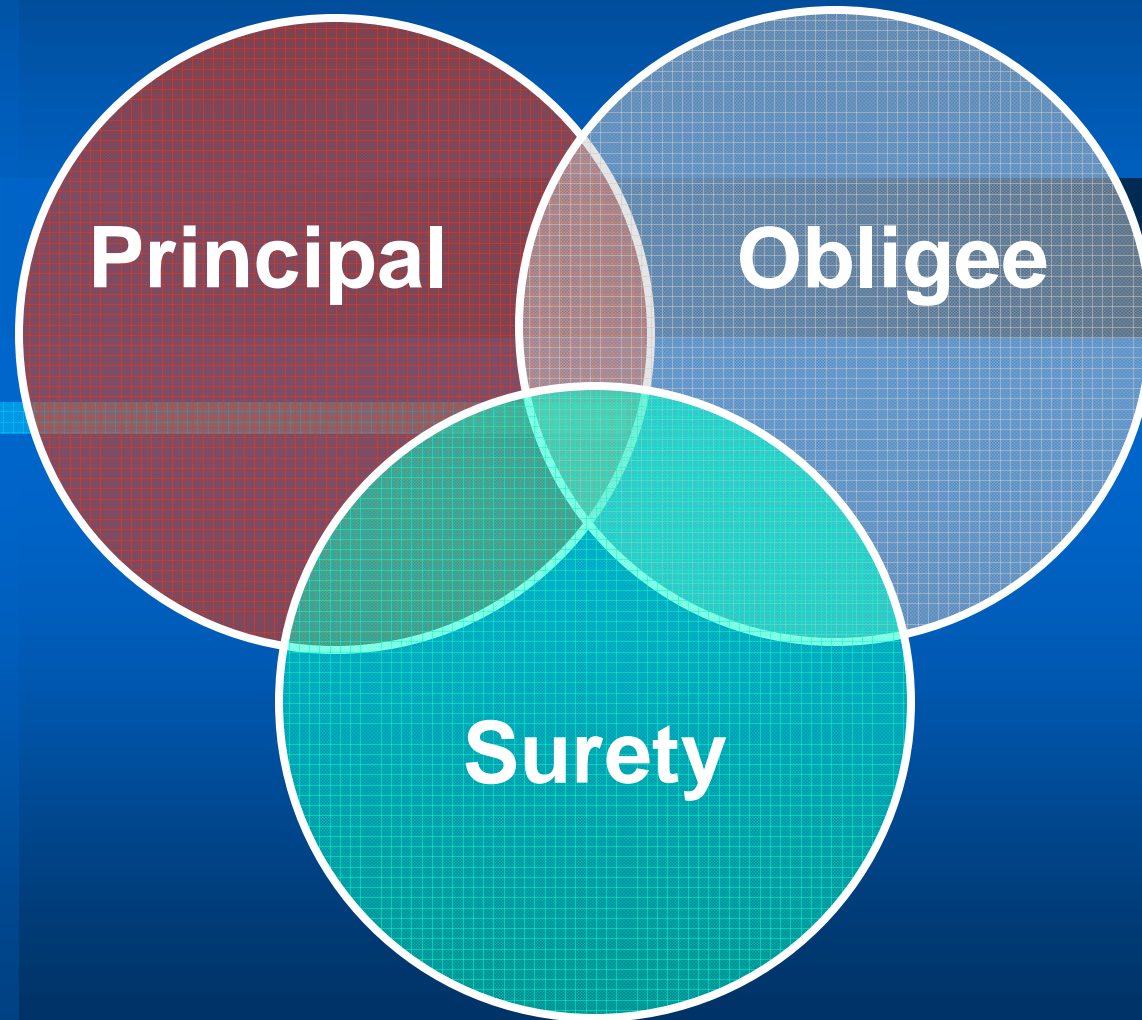
- The Need for Surety Bonds
- The Role of the Agent
- How the Prequalification Process works
- The Information required by the Underwriter
- How Bonding Capacity is Determined
- The Cost of Bonds
- Programs & Resources Available

Surety Bonds Mandated on Public Works



- **Protection for the Public**
- **Federal Laws**
 - Heard Act (1894) & Miller Act (1935)
 - P/P Bonds req'd. on jobs > \$100k
- **State & Local Laws**
 - “Little Miller Acts”
 - Amount varies from State to State

What is a Surety Bond?



Types of Contract Bonds

The image displays two overlapping contract bond forms. The top form is titled "THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA" and "AGC DOCUMENT NO. 262 BID BOND". It includes a logo and a section for "PERFORMANCE BOND" with instructions to see the reverse side. The bottom form is titled "THE AMERICAN INSTITUTE OF ARCHITECTS" and "AIA Document A311 Labor and Material Payment Bond". It features a logo and a section for "LABOR AND MATERIAL PAYMENT BOND" with instructions to see the reverse side. Both forms contain fields for names, addresses, and other contract details.

- Bid Bond
- Performance Bond
- Payment Bond
- Maintenance & Warranty Bonds

Surety Bonds vs. Traditional Insurance

Surety Bonds	Insurance
3-party contract	2-party contract
Risk transfer	Risk transfer
Duty is to Obligee	Duty is to Insured
Regulated by State Insurance Departments	Regulated by State Insurance Departments
Premium is fee for prequalification services	Premium is actuarially determined
Project specific	Usually term specific
Limit is Penal sum of bond	Policy limits

Prequalification

**Banking
Relationships**

**Experience/
References**

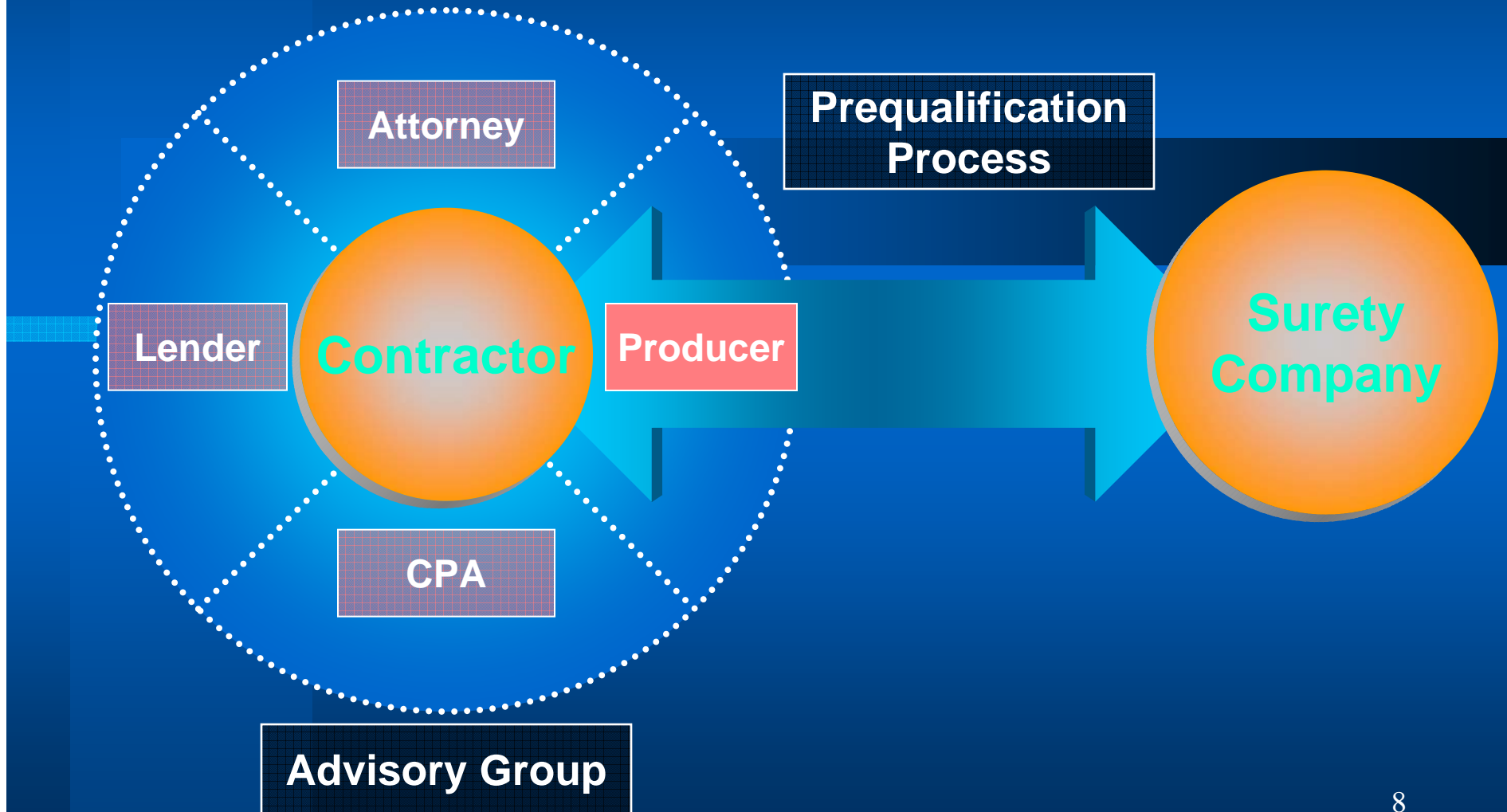
**Credit
History**

Cash/Capital

Character

Capacity

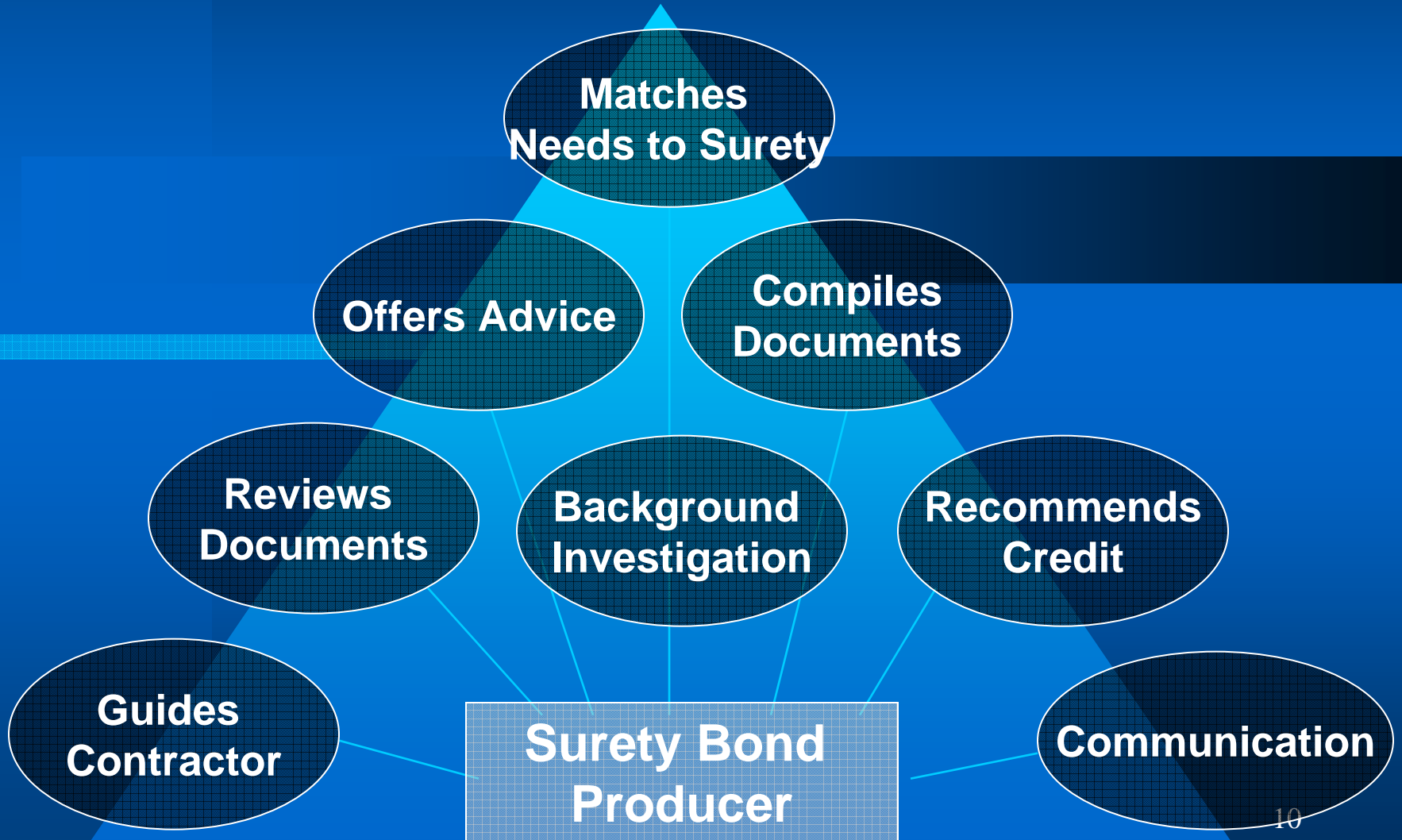
Role of the Producer



Attributes of a Quality Bond Producer



Value of the Producer

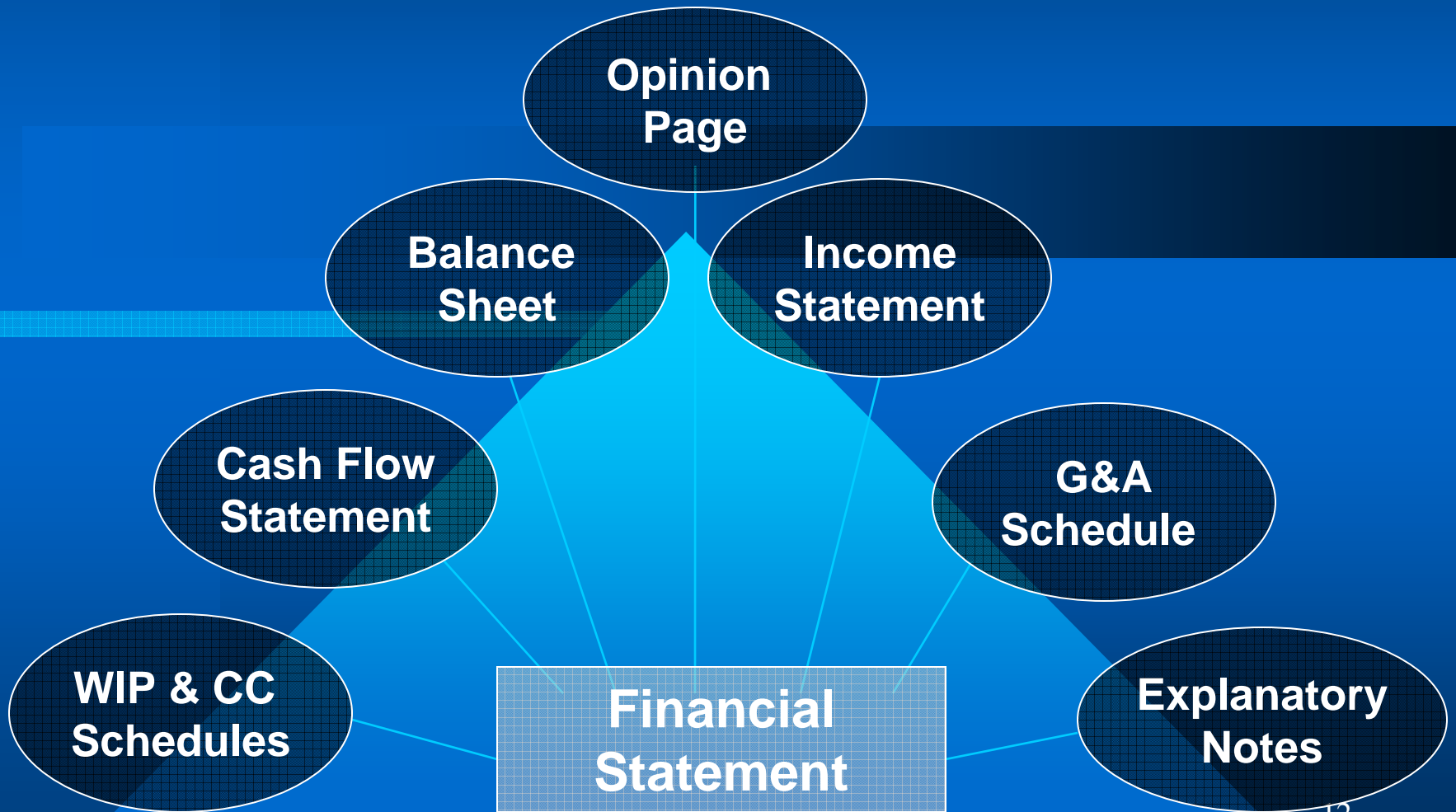


Accounting Professionals & Financial Reporting



- **Select knowledgeable CPA that has experience with POC accounting.**
- **Stmts. to conform to GAAP standards.**
- **Audited financial statements are preferred.**
- **Reviewed statements are usually acceptable.**
- **Compiled stmts. will limit single bond amount and capacity.**

Financial Statement Components



Job Status (WIP) Report

- **Primary conduit to communicate to surety**
- **Provided monthly or quarterly**
- **Provides consistent & conservative evaluations of jobs under contract**
- **Provides contract price, amount billed to date, cost to date, & total estimated cost to complete**
- **Ties in with Percentage of Completion Income Statement & Balance Sheet**

Information Needs



Next Step



- **Producer will file submission to Bond Underwriter**
- **Meeting between Contractor, Producer & Underwriter – May include CPA and/or Attorney**

Underwriting

Capital

Capacity

Character

Underwriting

Capital
Cash
Equity
Working
Capital
Profitability
Leverage
A/R Collections

Underwriting

Capital

Equity

Working
Capital

Profitability

Leverage

A/R Collections

Personal Funds

Capacity

Backlog

Cash Flow

Experience

Bank Support

Management

Skilled Labor

Equipment

Underwriting

Capital

Equity

Working
Capital

Profitability

Leverage

A/R

Collections

Personal

Capacity

Backlog

Cash flow

Experience

Bank support

Management

Skilled Labor

Equipment

Character

Reputation

Relationships

References

Credit Ratings

Surety Claims

Disputes

Sub selection

criteria

How Bonding Capacity is Determined

- **Financial Reporting**
- **Experience – Largest job/program**
- **Key Financial Ratios**
 - **Adjusted Equity/Program**
 - **Adjusted Working Capital/Program**
 - **Total Liabilities/Adjusted Equity**
- **Bank Support**
- **Personal Indemnity**
- **Collateral**

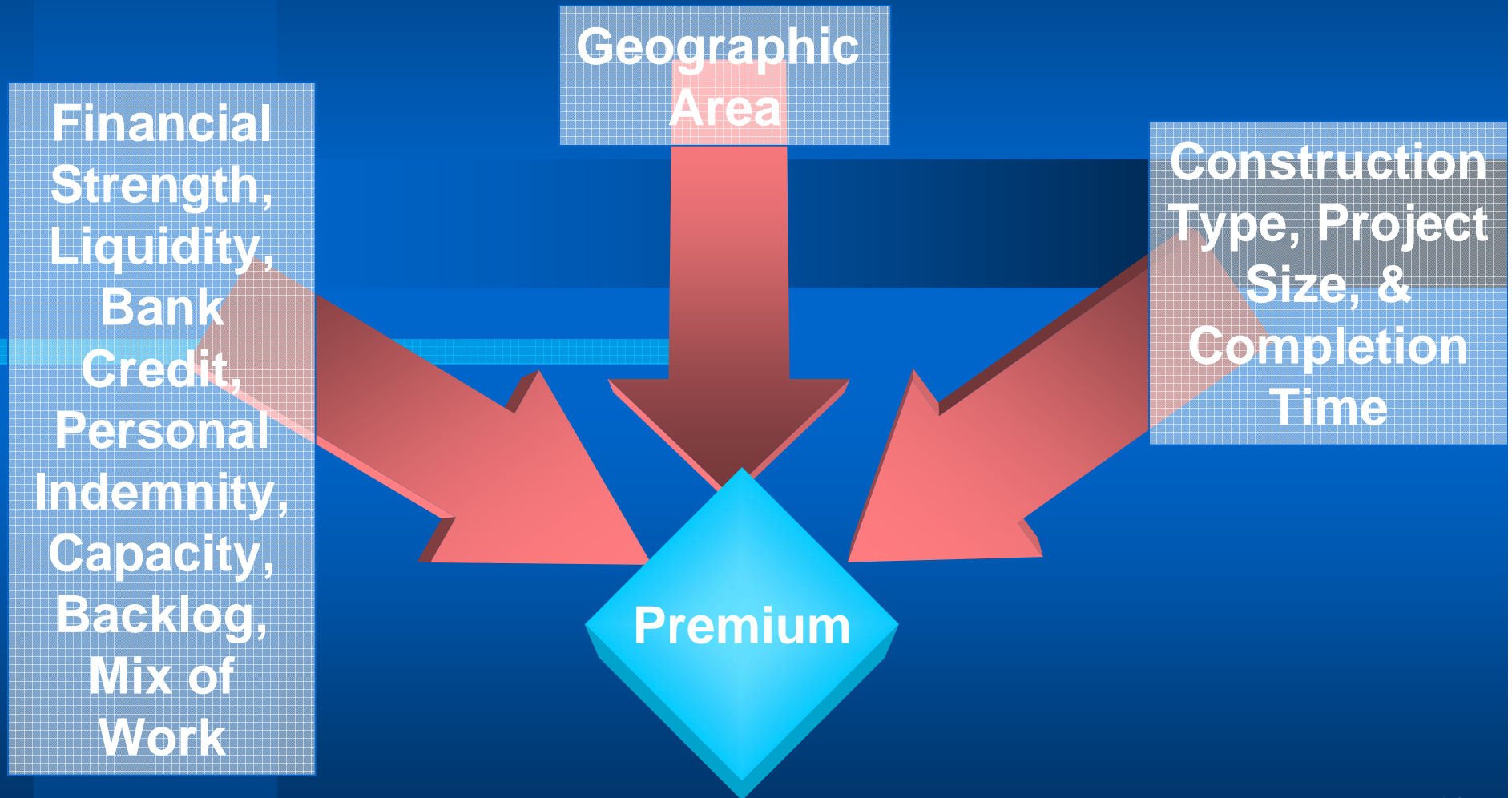
How Bonding Capacity is Determined

- **Adjustments to Balance Sheets that impact equity & working capital**
 - **Marketable Securities**
 - **Inventory**
 - **Accounts Receivables**
 - **Related Party Receivables**
 - **Prepaid Expenses**
 - **Speculative Real Estate**
 - **Notes Receivable from Shareholders**
 - **Bank Debt**

The Cost of Bonds

- **Bid Bonds – Usually no charge. Some sureties charge \$100/bond or an annual administrative fee.**
- **Performance Bonds – Always rated on the Contract Price. Rates normally range from 0.5% to 3.0%.**
- **Payment Bonds – Usually included in the cost of the Performance Bond.**

Performance Bond Premium Factors



SBA's Surety Bond Guarantee (SBG) Program

- **Targets small and emerging contractors**
- **SBA guarantees bid, performance and payment bonds for individual contracts.**
- **Reimburses surety 70% – 90% of loss & expenses if contractor defaults**
- **Prior Approval (Plan A) or Preferred (Plan B) programs available**
- **SBA charges the contractor a \$7.29 fee per thousand of contract amount for performance and payment bonds. No fee applies to bid bonds only.**
- **SBA charges the surety 26% of the premium that the surety charges the contractor.**

SBG Eligibility

- **Must establish business relationship with bond producer & surety and must meet surety's bonding qualifications.**
- **Public & private contracts must be \$2 million or less.**
- **There is no limit to the number of bonds that can be guaranteed for any one contractor.**
- **Contractor's business must be independently owned and operated and qualify as a small business under federal regulations**
- **For all contracts, firms must meet the small business size standard for the North American Industry Classification System (NAICS) Code that the federal contracting officer specified for that procurement.**

Resources for the SBG program

Small Business Administration

Darryl Bellamy, Supervisor

Telephone: (303) 844-2607, ext-261

Email: darryl.bellamy@sba.gov

<http://archive.sba.gov/aboutsba/sbaprograms/osg/index.html>

Additional Resources

Surety Association of Indiana (SAI)

www.indianasurety.org



National Association of Surety Bond Producers
(NASBP)



www.nasbp.org

The Surety & Fidelity Association of America (SFAA)



www.surety.org

Questions?

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