HELPING CONTRACTORS GROW: SURETY BONDING FOR NEW AND EMERGING CONTRACTORS

By Surety Information Office (SIO)

According to the U.S. Census Bureau, the value of construction put in place—excluding single-family residential construction—was about $673 billion in 2007. However, if contractors are unable to obtain bid, performance or payment bonds, their ability to secure some of that work, especially in the public sector, may be limited. Fortunately, the surety industry is reaching out to new and emerging contractors to help them obtain their first bond, increase bonding capacity and ultimately become better businesses. The ability to obtain surety bonds gives these contractors the support and resources they need to increase their contracting opportunities, compete for market share and grow.

FIRST STEPS

Most surety companies issue surety bonds through surety bond producers. The first step toward establishing a surety relationship and bonding capacity is to contact a professional surety bond producer who:

- understands the intricate process of surety bonding, as well as the unique underwriting standards and practices of surety companies;
- matches the needs of the contractor with the surety company that is best suited to service those needs;
- guides the contractor through the bonding process and assists in managing the contractor's surety capacity;
- creates and nurtures a successful relationship between the contractor and surety company;
- provides introduction to qualified accountants, bankers and lawyers who understand the construction business;
- is knowledgeable about the construction industry, accounting and finance procedures, and strategic planning and management practices; and
- offers sound business advice, management consulting and technical expertise to help the contractor maintain growth and profitability.

The National Association of Surety Bond Producers (NASBP) provides a list of professional surety bond producers at www.nasbp.org.

PREQUALIFICATION PROCESS

Before contractors can obtain a bond, they undergo an extensive prequalification process called underwriting to enable the surety to capture a clear picture of the company.

A surety company must be satisfied that the contractor runs a well-managed, profitable enterprise; keeps promises; deals fairly; and performs obligations in a timely manner. Underwriters use financial statements and business plans, among other factors, to help determine a contractor's surety capacity. Other criteria include the following:

- good references and reputation;
- the ability to meet current and future obligations;
- experience that matches the contract requirements;
- the necessary equipment and personnel to do the work or the ability to obtain it; and
- the financial strength to support the desired work program.

SURETY INDUSTRY SUPPORT FOR EMERGING CONTRACTORS

The surety industry is committed to assisting new and emerging contractors. Many surety companies have bonding programs designed especially for smaller contractors.

Model Contractor Development Program

The Surety & Fidelity Association of America (SFAA) developed the Model Contractor Development Program (MCDP), which:

- educates new and emerging contractors about surety bonds, and assists them in becoming bondable;
- identifies resources available for obtaining a first bond through federal, state and local programs;
- provides assistance and referrals for obtaining appropriate accounting, project management and financing expertise;
- assists with increasing bond capacity; and
- offers networking, outreach, advocacy and policy development.

The program educates new and emerging contractors on what they need to do to qualify for surety bonds. It also provides resources, such as educational seminars, and access to expertise, including lenders, surety professionals and accountants, to help these contractors develop stronger businesses.

The program provides contractors with valuable assistance in the actual bonding process. In most instances, this is done through the

FOR more INFORMATION

The Surety Information Office (SIO) is the information source on contract surety bonds in public and private construction. SIO offers complimentary brochures and CDs, and can provide speakers, write articles and answer questions on contract surety bonds. SIO is supported by The Surety & Fidelity Association of America (SFAA) and the National Association of Surety Bond Producers (NASBP). All materials may be accessed at www.sio.org.

establishment of peer-review programs that team surety professionals with contractors to review areas of potential bonding denial and identify factors that would make the contractor bondable. The team then develops a strategy to address the denial factors, including referring the contractor to specialized project management, accounting or finance assistance, if needed. The surety professional then helps the contractor identify bonding for subsequent projects.

For more information about the Model Contractor Development Program, please contact SFAA at 202.463.0600 or www.surety.org.

Bonding Support Programs

Small Business Development Centers (SBDCs) provide technical assistance, workshops or other educational opportunities. Some states—including Louisiana, Mississippi, Ohio and Tennessee—have established surety bond guarantee programs modeled after the SBA program.

To find out if programs are available locally, please visit www.sio.org/LSAdirectory.html and search for a surety association or visit the Small Business Administration's (SBA's) Web site at www.sba.gov/sbdc/index.html.

SBA Surety Bond Guarantee Program

The U.S. SBA's Surety Bond Guarantee (SBG) program has assisted small and emerging contractors who have the knowledge and skills necessary for success, but lack the combination of experience and financial strength to obtain bonds through regular commercial channels.

For more information on SBA bond guarantee programs, please contact the SBA Office of Surety Guarantees (OSG) by calling 202.205.6540 or by going online and visiting www.sba.gov/osg.

Department of Transportation

The U.S. Department of Transportation Bonding Assistance Program (BAP) offers new and emerging contractors an opportunity to obtain bid, payment and performance bonds on transportation projects. For more information, visit the Department of Transportation's Office of Small and Disadvantaged Business Utilization at http://osdbuweb.dot.gov.

Many states have established mentor programs to improve emerging contractor participation in transportation-related projects. To learn whether mentor programs are offered in a certain state, contact the state Department of Transportation.

INFORMATION AND EDUCATION

The Surety Information Office's (SIO's) free resources are especially helpful to new and emerging contractors. Several materials are available in both print and CD versions, including the following:

- "How to Obtain Surety Bonds"
- "The Importance of Surety Bonds in Construction"
- "Surety Companies: What They Are and How To Find Out About Them"
- "Surety Bonds Versus Bank Letters of Credit"
- "Surety Bonds: A Guide for Contractors CD"

Information is available at www.sio.org/contractor_main.html. To order free materials, please call 202.686.7463, e-mail sio@sio.org or visit www.sio.org/fstore.html. ◆