



HELPING CONTRACTORS GROW: SURETY BONDING FOR NEW & EMERGING CONTRACTORS

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www.surety.org



According to the U.S. Census Bureau, the value of construction put in place was about \$787 billion in 2011. However, a contractor's ability to secure some of that work, especially in the public sector, may be limited if he or she is unable to obtain a bid, performance, and payment bond. 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.

Surety Relationship

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

- Understands the intricate process of surety bonding and the unique underwriting standards and practices of the surety companies he or she represents
- 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 the 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
- Offers sound business advice, management consulting, and technical expertise to help the contractor maintain growth and profitability

A list of professional surety bond producers is available through the Web site of the National Association of Surety Bond Producers (NASBP) at www.nasbp.org.

Prequalification Process

Before a contractor can obtain a bond, he or she undergoes 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:

- 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
- The financial strength to support the desired work program

Model Contractor Development Program®

The Surety & Fidelity Association of America (SFAA) and its members work to ensure that bonds are available and accessible to qualified contractors through the Model Contractor Development Program (MCDP)®. SFAA launched the program, which is implemented by local surety associations, state and local governments, and other organizations nationally, to:

- Educate new and emerging contractors about surety bonds and assist them in becoming bondable
- Identify resources available for obtaining a first bond through federal, state, and local programs
- Provide assistance and referrals for obtaining appropriate accounting, project management, and financing expertise
- Assist with increasing bond capacity
- Offer networking, outreach, advocacy, and policy development

The program guides new and emerging contractors on what they need to do to qualify for surety bonds and 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 also provides contractors with valuable assistance in the actual bonding process. In most instances, this is done through the establishment of peer review programs that team surety professionals with the 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 MCDP®, contact SFAA at (202) 463-0600 or visit www.surety.org. The MCDP® is located in the Development and Diversity section.

Programs for New & Emerging Contractors

The surety industry is steadfast in its commitment to help new and emerging contractors obtain their first bond and increase their bondability. Many surety companies have developed programs especially for these contractors.

Information & Education

The Surety & Fidelity Association of America (SFAA)

SFAA offers many useful tools and education materials for new and emerging contractors including:

- Model Contractor Development Program®
- Contractor Development Program Educational Modules
- Business Planning and Management for Construction
- Construction Accounting and Financial Management
- Banking and Financing for Contractors
- Bonding and Insurance for New and Emerging Contractors
- Marketing, Estimating, and Bidding
- Project Management and Field Operations
- Claims and Dispute Resolution
- Success Stories: Why Some Contractors Succeed and Others Fail

SFAA's free resources are especially helpful to new and emerging contractors. Materials include:

- *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 or Bank Letters of Credit*
- *Surety Bonds: A Guide for Contractors*

For more information, contact SFAA at (202) 463-0600 or visit www.surety.org.

National Association of Surety Bond Producers (NASBP)

To find a professional surety bond producer, go to www.nasbp.org. For more information, contact NASBP at (202) 686-3700 or info@nasbp.org.

Ongoing Programs at State and Local Levels

Small Business Development Centers (SBDCs) provide technical assistance to contractors in many locales. Similarly, local educational institutions may offer workshops and other educational opportunities to small businesses. To find out if programs are available in your area, contact your local surety association by visiting www.sio.org/LSAdirectory.html. To learn more about Small Business Development Centers, visit the Small Business Administration (SBA) Web site at www.sba.gov/sbdc/index.html.

The Minority Business Development Agency (MBDA) is

the only federal entity created specifically to foster the creation, growth, and expansion of minority-owned businesses in the United States. Through an agreement with The Surety & Fidelity Association of America, the MBDA provides resources to minority-owned firms to enhance their access to bonding and educate them on how to become bondable or increase their bonding capacity. To learn more about the MBDA, visit www.mbda.gov.

Bonding Support Programs

Many federal, state, and local governments have developed or are developing bonding support programs for new and emerging contractors. Surety companies, SFAA, and local surety associations around the country have assisted with several programs that provide technical assistance, surety bonding, and working capital loan assistance services to new and emerging contractors. For more information on possible bonding support programs in your area, visit the Development & Diversity section on the SFAA Web site at www.surety.org or contact SFAA at (202) 463-0600.

Bond Guarantee Programs

SBA Surety Bond Guarantee Program

For more than 30 years, the U.S. Small Business Administration's (SBA) Surety Bond Guarantee (SBG) program has helped 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. SBA guarantees bid, performance, and payment bonds issued by surety companies to small and emerging contractors and reimburses the surety a percentage of loss if the contractor defaults. This government guarantee allows sureties to write bonds for contractors who would not otherwise meet their minimum standards—thus providing small and emerging contractors with contracting opportunities for which they would not otherwise qualify. The SBA Office of Surety Guarantees (OSG) administers the SBG program as a partnership between the federal government and the surety industry. For more information on SBA programs, visit SBA's Web site at www.sba.gov/OSG or call (202) 205-6540.

State Programs

Some states, including Louisiana, Mississippi, Ohio, and Tennessee, have established surety bond guarantee programs modeled after the SBA program. To learn whether surety bond guarantee programs are offered in your state, contact your local surety association.

Mentor-Protégé & Training Programs

AGC Stempel Program

The Stempel Plan is a mentor-protégé program implemented through Associated General Contractors of America (AGC) chapters nationally to build effective working relationships between leaders of mature established companies and new and emerging contractors.

The mentor focuses on developing the protégé's business plan and implementing actions necessary to help the protégé become a successful businessperson and contractor. Building on its origins with the AGC Oregon Columbia Chapter's work with the Port of Portland mentor program, the plan has since become a national model for several agencies and organizations. Learn more at www.agc-oregon.org.

Other Mentor-Protégé and Training Programs

Many states have established mentor-protégé programs to improve emerging contractor participation in transportation-related projects. Programs may provide opportunities for new and emerging contractors to hone their business skills through close work with established contractors. Some programs are designed to increase minority participation in state highway construction projects or transportation-related contracts. Other programs aim to elevate the volume of projects emerging contractors are capable of bidding on and profitably performing. To learn whether mentor-protégé programs are offered in your state, contact your state Department of Transportation.



SURETY AND FIDELITY BONDS: **PROTECTING** CONSUMERS, TAXPAYERS AND BUSINESSES

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The Surety & Fidelity Association of America (SFAA) is licensed as a rating or advisory organization in all states and it has been designated by state insurance departments as a statistical agent for the reporting of fidelity and surety experience. SFAA serves as a trade association of more than 420 insurance companies that write the vast majority of surety and fidelity bonds in the U.S.