

# Surety Bond Strategies

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# Why Are Bonds Needed?

- **Federal Law**, The Miller Act requires all public works contracts \$100,000 or greater to be bonded.
- **State Law**, Maryland's Little Miller Act.
- **GC** bond-back provisions.

# **Traditional Bond Market**

# **BONDS \$250,000 or less**

- Simplified Application Process
- Primarily Underwritten on the basis Personal and Business Credit Scores
- Response within 48 hours
- Bond lines can be established with additional corporate and personal financial information.
  - Ex. \$250,000 single - \$500,000 aggregate

# **BONDS \$250,000 to \$500,000**

- May not require CPA financial statements
- Personal and Business Credit Scores heavily weighted
- No multi-year contracts
- No environmental contracts

# Bonds > \$500,000

- Strength of Balance Sheet
- Financial Statement Presentation
- Equity
- Debt
- History of Successful Projects
- Consistent Profitability
- Experience in Type of Project
- Use of CPA's With Industry Knowledge
- Claims History
- Reputation of Firm and/or Principals

# How Much Bonding Can I Get?

A multiplier between 10 and 20 times is applied to **working capital** to arrive at your *aggregate* bonding capacity.

*Single* job limit will vary.

**If corporate surety declines bond,  
then what?**

# SBA Bond Guarantee Program

- Guarantees a corporate surety bond for 70% to 90% of the contract value.
- Helps contractors overcome corporate surety underwriting barriers.
- Unused portion of bank line of credit can be considered as **additional working capital**.

# STIMULUS PACKAGE

- U.S. Senator Benjamin Cardin (D-MD)
- Increased SBA Bond limit from \$2 million to **\$5 million.**
- Discretionary authority up to \$10 million.
- Specialty contractors sales cap now \$14.2 million.
- General contractors sales cap now \$33.5 million.

# Individual Surety Bonds

- A third party individual who pledges a security interest in certain assets to secure a bond.
  - Must be a U.S. Citizen.
  - Must have sufficient ownership in the pledged assets.
  - Must comply with F.A.R. 28.203 and/or applicable state laws.

# FAR 28.203

## Acceptability of Individual Sureties

“(a) **An individual surety is acceptable** for all types of bonds except position schedule bonds. The contracting officer shall determine the acceptability of individuals proposed as sureties, and shall ensure that the surety’s pledged assets are sufficient to cover the bond obligation.”

Source: FAR§ 28.203 Acceptability of Individual Sureties



# **Bonds for Joint Ventures & Teaming Arrangements**

- SBA Bond Guarantee Program 15% rule.
- Joint venture's (JV) annual sales cannot breach the SBA's NAICS size limitations.
- Corporate Surety Constraints.

***Thank You!!***



**Professional Surety Brokers**

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