U.S. Small Business Administration

News Release

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SBA Proposes Higher Surety Bond Guarantees to Help Small Businesses Secure Larger Contracts in Disaster Areas

WASHINGTON – The U.S. Small Business Administration has proposed changes, including higher surety bond guarantee limits, that will help construction and service sector firms secure larger contracts for work in areas impacted by disasters.

The proposed changes, which were published as part of a Proposed Rule in *The Federal Register* on April 26, include:

- For a non-federal contract or order up to $5 million, a bond guarantee may be issued if the products will be manufactured or the services are performed in the disaster area.
- For a federal contract or order up to $5 million, the performance site can be outside the disaster area if the contract or order will directly assist the disaster recovery efforts.
- For a federal contract or order, the amount of the guarantee can be as much as $10 million at the request of the head of an agency that is involved in reconstruction efforts.

"These proposed changes are one more way we can help small businesses, particularly in the construction and service sectors, compete for and win critical contracting opportunities that help them grow their business and create jobs," SBA Administrator Karen Mills said. "Additionally, these proposals would help spur economic growth and recovery in areas that have been hard hit by disasters, bringing jobs and economic activity to a region at a time when it is needed most."

The proposed changes are related to the Small Business Disaster Response and Loan Improvements Act of 2008, which increases the eligible amount for contracts or orders related to a major disaster area. These proposals build on increases to surety bond guarantees made possible under the American Recovery and Reinvestment Act of 2009. The major disaster areas are identified on the Federal Emergency Management Agency Web site.

Generally, the increased amounts would apply during the 12 months following the disaster declaration, unless SBA provides for an extension related to a particular disaster.

In addition to the disaster related proposals, the Proposed Rule clarifies SBA's position that it does not cover any costs related to insurance or indemnification requirements that may be contained in the bonded contract. It specifically excludes from the losses covered by SBA any

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costs that arise from the principal's failure to secure and maintain insurance that result from any claims or judgments that exceed the amount of insurance coverage, and that arise from an agreement by the principal to indemnify the contractor or any other persons.

SBA partners with the surety industry to help small businesses that would otherwise be unable to obtain bonding in the traditional commercial marketplace. Under the partnership, SBA provides a guarantee to the participating surety company of between 70 and 90 percent of the bond amount. Through its Surety Bond Guarantee program, SBA also helps owners by guaranteeing bid, payment and performance bonds to protect the project owner against financial loss if a contractor defaults or fails to perform.

The Proposed Rule is available for public inspection at *The Federal Register* at http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=2010_register&docid=2010-9434.pdf . Comments on these proposed changes must be received on or before May 26, 2010, and can be submitted at http://www.regulations.gov, or mailed or hand-delivered to Office of Surety Guarantees, Suite 8600, 409 Third Street SW, Washington, DC 20416. SBA will post all comments on www.regulations.gov.

SBA assistance in locating a participating surety company or agent, and completing application forms, is available online. For more information on SBA's Surety Bond Guarantee Program, including Surety Office contacts, go online to http://www.sba.gov/osg/, or call 1-800-U-ASK-SBA.

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