



**U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416**

TESTIMONY OF

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BEFORE THE

**SUBCOMMITTEE ON CONTRACTING AND WORKFORCE
HOUSE COMMITTEE ON SMALL BUSINESS
U.S. HOUSE OF REPRESENTATIVES**

MAY 23, 2013

Thank you Chairman Hanna, Ranking Member Meng and members of the Subcommittee. I am pleased to testify before you today on the topic of surety bonds.

The Small Business Administration (SBA) Surety Bond Guarantee Program was established in 1971 to help small businesses obtain the surety bonds that are often required as a condition of awarding a construction contract or subcontract. For example, the Federal government requires a surety bond on any construction contract valued at \$150,000 or more. Most state and local organizations have similar bonding requirements, as do many private construction projects.

SBA's program helps small and emerging firms become bonded by guaranteeing a portion of the bond issued by a participating surety company. The SBA guarantee acts as an incentive for surety companies to bond eligible small businesses that might not otherwise fit traditional surety bonding criteria.

There are two types of SBA surety bond guarantees: (1) those made through our Prior Approval Program, which provide an 80% or 90% guarantee (depending on the size of the contract and the type of small business); and (2) those made under SBA's Preferred Program, which provide a 70% guarantee. There are 21 surety companies participating in SBA's program—17 in the Prior Approval Program and 4 in the Preferred Program. Currently, about 86% of our bonds are issued

through the Prior Approval Program, while about 14% are made through the Preferred Program.

I am pleased to report that Fiscal Year 2013 is on track to be the seventh consecutive year of program growth. To date, we have issued 7,595 bond guarantees representing contracts valued at over \$3.5 billion. This is approximately 49% ahead of last year's volume in terms of the number of bond guarantees issued, and about 65% ahead of last year's numbers in terms of total contract value.

SBA values its partnership with the surety industry and knows that it is fundamental to the program's success. We continue to refine our processes and procedures to strengthen this partnership. We are currently completing work on regulatory changes that address several industry concerns while simplifying and clarifying processes for our surety partners.

In August, we implemented a new Quick Bond Guarantee Application—known as Quick App—for contracts valued at \$250,000 or less. This streamlined process adopts an industry “best practice” by eliminating much of the paperwork on smaller contracts without increasing performance risk. So far this year, Quick App accounts for approximately 19% of eligible applications. And since implementation, over 685 Quick Bond guarantees have been issued. Based on our experience over the past eight months, as well as feedback from our surety partners, we are further refining the Quick App process and expect its use to increase substantially during FY 14.

In terms of legislative changes within our program, the National Defense Authorization Act of 2013 raised the individual contract ceiling in the program from \$2 million to \$6.5 million. The new law also permits bonding of Federal contracts up to \$10 million where the contracting officer certifies that an SBA surety bond guarantee is in the best interest of the government. Additionally, the Defense Authorization Act provides SBA with broader discretion when it assesses bond liability.

These changes have been well received across the surety industry and among small businesses. So far, we have issued 97 bond guarantees on contracts valued at \$2 million or more. This represents approximately \$290 million in new construction contracts. In addition, we have seen the number of participating surety agents increase by 15%, and we have admitted two new surety companies to the program in just the past few months.

With respect to key program performance measures, the average contract default rate over the past five years is approximately 3%. It is noteworthy that we have not seen any defaults on the larger contracts authorized under the Defense Authorization Act, and we have had zero defaults on Quick App contracts. Additionally, the Program has experienced a positive cash flow in each of the past six years.

The SBA Surety Bond Guarantee Program is helping the small business community grow and prosper during a critical time in our nation's economic recovery. We look forward to working closely with you and your staff on any changes to the program, as well as other SBA initiatives that support small and emerging firms.

I appreciate the opportunity to testify before you today, and I welcome any questions you may have.

Thank you.

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