



SMALL CONTRACTORS INITIATIVE: BONDING & ACCESS TO CAPITAL

Fees for Construction Bonding

- **Bid Bonds:** No SBA Fee, possibly a small surety fee.
- **Performance and payment bonds:**
 - SBA Guarantee Fee: 0.729% of the Contract Amount
 - Surety’s Bond Premium: 1.5% – 3% of the Contract Amount

COSTS OF BONDING EXAMPLES

Contractor A’s Bond Costs: Standard Underwriting

A highly qualified contractor received a bid bond and was subsequently awarded a \$500,000 Federal contract to install new energy efficient windows in three buildings at an airbase. They were able to obtain a bond from a bonding company without an SBA guarantee:

\$12,500	2.5% Surety’s Bond Premium (\$500,000 x 2.5%)
- 0 -	SBA Guarantee Fee
<u>\$12,500</u>	Total Cost for Bonds

Contractor B’s Bond Costs: Underwriting with SBA Guarantee

A contractor is getting a bond for the first time, with minimal collateral, and therefore is not qualified to secure bonding through the standard market, so it obtains an SBA guarantee. The rate is normally 2.5% in the standard market, but because the contractor needs SBA support, the surety lowers the rate in an attempt to help with the cost of the SBA guarantee:

- 2% of \$500,000 is \$10,000
- 0.729% of \$500,000 is \$3,645
- \$13,645 total cost

\$10,000	2.0% Surety’s Bond Premium (\$500,000 x 2.0%)
\$ 3,645	SBA Guarantee Fee (\$500,000 x .729%)
<u>\$13,645</u>	Total Cost for Bonds