Terrebonne Economic Development Authority
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www.tpeda.org

What is a Surety Bond?

A surety bond ensures contract completion in the event of contractor default. A project owner (called an obligee) seeks a contractor (called a principal) to fulfill a contract. The contractor obtains a surety bond from a surety company. If the contractor defaults, the surety company is obligated to find another contractor to complete the contract or compensate the project owner for the financial loss incurred.
Surety bonds are needed for any federal construction contract valued at $150,000; most state and municipal governments and some private entities have requirements for bid, payment and performance bonds. The purpose of a surety is to protect public and private interests against financial loss.

1. **Bid Bond:** Ensures the bidder on a contract will enter into the contract and furnish the required payment and performance bonds if awarded the contract. (This is usually the first step in a bonded contract process, when a bidder guarantees the price bid by posting a certified check or indemnity bond, which is forfeited if the contractor fails to enter into the contract awarded. When the contractor enters into the contract at the amount bid, the bid bond is released.)
2. **Payment Bond:** Ensures suppliers and subcontractors are paid for work performed under the contract.
3. **Performance Bond:** Ensures the contract will be completed in accordance with the terms and conditions of the contract.

As of July 1, 2016, Louisiana Economic Development will be renewing its Bonding Assistance Program.
The aim is to help companies with the ability to bid on private and public jobs, compete for projects leading to financial security and potential growth. The program will allow for companies to bid on projects valued up to $400,000, providing up to $100,000 in collateral per project to back the bond.
Companies who may apply for this assistance must be registered with the state as a Small and Emerging Business, provide a scope of work and payment history. Then applicants then can work with a state -provided list of surety companies.
The program may require some funds control, as in subcontractors being paid of the draw from the general contractor/public agency.
Estimated Cost: can be 1.5% on the first $100,000; 3% after that.
To qualify, visit http://www.opportunitylouisiana.com/small-business/special-programs-for-small-business/small-and-emerging-business-development-program

What's needed?

Surety companies are going to seek to judge the "three Cs" when evaluating an application:

- **Capital** – whether a company has enough liquidity and cash flow to complete the project, sufficient bank balances and manageable debt.
- **Capacity** – assessment of previous projects and past performance, whether the applicant fully understands the project's scope of work and whether the applicant is qualified for the specific work in the contract.
- **Character** – evaluation of the applicant's company management.

Typical information a contractor can expect to provide is:

- Contractors Surety Application/Questionnaire – this helps the agent and the surety gain an understanding for the contractors business, etc.
- Business Financial Statements – Last 3 fiscal year ends – depending on the size of bonds needed, these statements can be prepared internally or by a CPA.
- Interim Business – If it is a new account with a fiscal year end that ends 12/31, an interim financial statement may be needed.
- Personal Financial Statements – from all majority owners (typically owning 5% or more of the company).
- Sometimes a surety agent may require an authorization form to be signed in order for them to pull personal credit
- Bank Reference
- Work on Hand Schedule – This is a form that helps the surety agent understands ongoing work and backlog
- 3 Job References
- Resumes on Owners and Key Personnel
- Certificate of Insurance – proving contractor has adequate insurance coverage
- Authorization to pull applicant's credit
- Other items that may be requested: Business Plans, Continuity of the Business, etc.

What should you look for in a surety agent:

- Someone who will talk to you directly, answering questions so you understand the process.
- Someone who will explain their specialties and limitations – some surety companies, for example, do not bond projects on, in or around water, for example.
- The surety company must be profitable and must have a strong balance sheet.
- Check out the surety agent's web site, looking for experience. Some smaller agents that are insurance-driven don't have the same ability to handle bonds that larger companies have.

SBA
U.S. Small Business Administration

The U.S. Small Business Administration also provides and manages surety bond guarantees for qualified small and emerging businesses in partnership with surety companies.
It will guarantee bid, performance and payment bonds for contracts up to $6.5 million.
SBA can guarantee a bond for a contract up to $10 million if a federal contracting officer certifies that SBA's participation is necessary for the small business to obtain bonding.
Estimated cost of SBA bond guarantee: .729%
Visit https://www.sba.gov/surety-bonds for more information.