

**SBA**

**SOP 50 49**

**Preferred Surety Bond  
Program**

Office of Surety Guarantees

Office of Capital Access

U.S. Small Business Administration

**Small Business Administration**

**Standard Operating Procedure**

National

**Subject:** Preferred Surety Bond Program

**S.O.P. Number:** 50 49

**Revision Number:** Not Applicable

**Purpose:** To provide guidance regarding the procedures and program requirements of the Preferred Surety Bond Guarantee Program.

**Personnel Concerned:** All SBA employees and Surety Partners

**SOP Canceled:** Not Applicable

**Originator:** Office of Surety Guarantees

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**Effective Date:** January 24, 2021

## Contents

Chapter 1. General Overview of the Surety Bond Guarantee (SBG) Program.....	5
1. Introduction and Authority .....	5
2. Mission, Objective and Purpose.....	6
3. Program Operation.....	7
Chapter 2. Procedures and Program Operation.....	8
1. Allocation, Usage, and Monitoring of Guarantee Authority .....	8
2. Retention of Forms and Information.....	12
3. Notification of Bonds.....	13
4. Loss and Reinstatement of Eligibility of Principal and its Affiliates for Further SBA Bond Guarantees .....	13
Chapter 3. Claims and Recovery .....	16
1. Notice of a Potential Claim.....	16
2. Imminent Breach.....	16
3. Claims Bordereau.....	17
4. Denial of Liability .....	17
Chapter 4. Subrogation and Recovery.....	19
1. Surety Responsibility .....	19
2. Recovery Bordereau.....	19
3. Recovery Payments.....	19
4. Indemnity Settlements .....	20
Chapter 5. Sureties that are Defunct, in Rehabilitation or in Liquidation .....	22
Chapter 6. Audit of a PSB Surety.....	23
1. Frequency of PSB Examination .....	23
2. Records Retention .....	23
3. Responsibility of a PSB Surety .....	24
4. Audit Process.....	24
5. Underwriting Checklist for Files. SBA’s review of the Surety’s underwriting will include, but not be limited to, the following:.....	25
6. OSG Claims and Recovery Compliance Checklist:.....	26

7. Recovery Compliance Checklist: .....27  
APPENDIX 1: RECOVERY REQUEST LETTER .....28  
APPENDIX 2: PROCESS MAPS.....29

## Chapter 1. General Overview of the Surety Bond Guarantee (SBG) Program

### 1. Introduction and Authority

- a. This Standard Operating Procedure (SOP) provides guidelines for the management and administration of the Preferred Surety Bond (PSB) Program that is operated as part of the Surety Bond Guarantee (SBG) Program. It is for use by SBA personnel, participating surety companies, agents, representatives, and all other interested parties. This SOP is intended to supplement the guidelines provided in Chapters 1, 2, 3, 4, 5, 7, and 8 of SOP 50 45 3, Surety Bond Guarantee Program, effective August 5, 2015 (or any successor issued thereto), which relate to the management and administration of the PSB Program.
- b. The SBG Program is authorized by § 410 et seq. of the Small Business Investment Act of 1958, 15 USC §694a et seq. Program regulations are in Chapter 13 of the Code of Federal Regulations (CFR), Part 115. The PSB Program was created by the Preferred Surety Bond Guarantee Program Act of 1988, Title II of Public Law 100-590, as a pilot program. Public Law 108-447 made the PSB Program permanent.
- c. **Definitions:** The terms and abbreviations defined below have the same meaning wherever they are used in this SOP. Unless otherwise indicated, defined terms are capitalized wherever they appear. The terms defined in this SOP are terms which are not covered in 13 CFR §115.10, Definitions, or are terms for which additional clarification is provided.
  - (1) **Bordereau** means a report submitted to SBA detailing the losses incurred by the Surety and the amounts recovered and received by the Surety.

- (2) **CAFS** means Capital Access Financial Systems.
- (3) **Commencement of work under a Contract** is considered to have begun when the Contractor takes any action at the job site which would have exposed its Surety to liability under applicable law had a bond been Executed (or approved, if the Surety is legally bound by such approval) at the time.
- (4) **Contractor** means the Principal as defined in 13 CFR 115.10.
- (5) **D/SG** means Director of Surety Guarantees.
- (6) **Defunct Surety** means a Surety which has ceased to function and no longer conducts business operations.
- (7) **Indemnity Settlements** means a settlement between a defaulted contractor and its Surety in an amount less than the total loss amount that the parties agree satisfies the contractor's indebtedness to the Surety.
- (8) **OSG** means Office of Surety Guarantees.
- (9) **Surety in Liquidation** means a Surety that is in the process of settling its financial affairs by reducing its assets to cash, discharging liabilities, and dividing surplus or loss. Liquidation may precede or follow dissolution of the Surety, which is the end of the legal existence of a corporation.
- (10) **Surety in Rehabilitation** means a Surety that is under corporate reorganization under Chapter 11 of the Bankruptcy Code in an attempt to return the Surety to successful operation and solvency.

## 2. Mission, Objective and Purpose

Effective Date: 1/24/2021

The mission of the SBG Program is to provide bonding assistance, in partnership with surety companies, to qualified small businesses. By assisting these small and emerging businesses, SBA's objective is to enable them to eventually become bondable without SBA's assistance. A surety bond is issued by a Surety and protects against all or part of the loss if the contractor defaults on the contract. The Miller Act requires a surety bond on any Federal contract valued at \$150,000 or more. Most states, local governments and private entities also require surety bonds.

### 3. Program Operation

Under the SBG Program, SBA guarantees bonds that are issued by surety companies on behalf of small contractors. If a default occurs, SBA reimburses the Surety a specified percentage on the losses and expenses incurred. The program is delivered through the Prior Approval and the Preferred Surety Bond (PSB) programs. Under the Prior Approval Program, SBA approves each surety bond guarantee individually. Under the PSB Program, participating Sureties are delegated the authority to issue, service, and monitor bonds without SBA's prior approval, except that for a period of nine months following the Surety's initial admission to the PSB Program, the Surety must obtain SBA's prior written approval before executing a bond greater than \$2 million. SBA may in its discretion extend this period to allow SBA to further evaluate the Surety's performance.

## **Chapter 2. Procedures and Program Operation**

### **1. Allocation, Usage, and Monitoring of Guarantee Authority**

#### **a. Allocation**

SBA allocates a portion of the guarantee authority to each PSB Surety at the beginning of each fiscal year, which is October 1<sup>st</sup>, and may adjust a Surety's allocation at any time during the fiscal year if necessary. A PSB Surety may request an allotment increase at any time during the fiscal year. No SBA guarantee attaches to any bond that the PSB Surety approves if the bond exceeds the allotted authority for the period in which the bond is approved. The PSB Surety may not rely on any future guarantee authority. Unused guarantee authority cannot be carried forward to the following year.

#### **b. Monitoring Guarantee Authority**

Each PSB Surety is responsible for monitoring its own guarantee authority. A PSB's bond activity (including increases in the contract or bond amount) must not exceed the Surety's allotment. Unless the Surety obtains SBA's approval of its request for an increase in the Surety's allocation, SBA's guarantee does not attach to any amount (in whole or in part) that is in excess of the Surety's allotment.

### **2. Required Forms and Information**



A PSB Surety must obtain from its applicants all information and certifications required by SBA and must upload all required and supporting documents to CAFS. The PSB Surety must use the following forms:

a. [SBA Form 994 – Application for Surety Bond Guarantee Assistance](#)

The Contractor completes this form and submits it to the Contractor's surety agent of choice to apply for surety bond guarantee assistance. This form must be submitted for the Contractor's initial surety bond guarantee request for a Bid or Final Bond, and for each subsequent bond guarantee request for a Bid or Final Bond. SBA Form 994 consists of the following 5 parts:

- (1) Part I, Business Information, and Part II, Management Information, which must be completed for the initial application and updated for subsequent applications to reflect any changes;
- (2) Part III, Contract Information, and Part IV, Agreements, Certifications and Comments, which must be completed for each Bid and Final Bond; and
- (3) Part V, Individual Certifications on Citizenship and Character and Other Matters, which includes questions related to citizenship, character, and debarment, and certifications. Each of the individuals identified in Part V must answer the questions and make the required certifications.

b. [SBA Form 994B – Surety Bond Guarantee Underwriting Review](#)

This form contains business, financial, and contract specific information, and must be used by the Surety/Agent in the underwriting of a bond guarantee to determine the financial, management and technical ability to successfully complete a job.

c. [SBA Form 991 – Surety Bond Guarantee Agreement Addendum](#)

This form must be completed if work on the project has started. The “billed to date”, “paid to date”, and “waiver of lien attached hereto” amounts must all agree, and the principal must certify that all suppliers and/or subcontractors and all taxes have been paid current as of the principal’s signature date. The Obligee must certify that all payments due to the principal under the contract are current and the project has been satisfactorily performed as of the Obligee’s signature date. Both certification signatures must be original.

The following documentation must be included with the SBA Form 991:

- Evidence that the requirement for the bonds was contained in the original contract at award.
- A statement explaining why the bonds were not obtained prior to commencement of the work and why they are now being required.
- Copies of all lien waivers for all subcontractors and suppliers.

The PSB Surety must upload a copy of SBA Form 991, with certifications, waivers, and supporting documentation to CAFS. The PSB Surety must not execute or approve a bond after commencement of work under a Contract unless the Surety obtains written approval from the Director of the Office of Surety Guarantees based on the information submitted.

d. [SBA Form 994F – Schedule of Work in Process \(WIP\)](#)

The Contractor must complete this form and submit it as part of its SBA Form 994. Information about all the Contractor's uncompleted work, both bonded and unbonded, is contained on this form. This form, or an alternate form with the same information, must be obtained with the initial surety bond guarantee updated in CAFS if the application is submitted 90 days after the last application.

e. Quarterly Contract Completion Report

Sureties are required to submit SBA Form 2461, Quarterly Contract Completion Report (QCCR), within 45 days of the close of each Federal fiscal year, including the quarters ending September 30<sup>th</sup>, December 31<sup>st</sup>, March 31<sup>st</sup>, and June 30<sup>th</sup>, that identifies each Contract successfully completed during the quarter. To complete the QCCR, PSB Sureties must input closing bond guarantee data into the Close Bonds section of CAFS. After completing the data entry, PSB Sureties are required to sign, date, and upload the paper copy of the QCCR report to CAFS. In this report, the surety must identify each contract that was successfully completed during the quarter, and include:

- (1) PSB Surety Bond Guarantee Number,
- (2) Name of the Principal,
- (3) The original contract dollar amount,
- (4) The revised contract dollar amount (if applicable),
- (5) The date of contract completion, and
- (6) A summary specifying the fee amount paid to SBA by the Surety and Principal, and the fee amounts due to SBA as a result of any increase in the contract amount or the Fee amounts to be refunded to the Principal or rebated to the Surety as a result of any decreases in the contract amount.

f. General Indemnity Agreement (GIA)

The PSB Surety must obtain an executed GIA on the Surety's form prior to the initial request for an SBA guarantee. It must include a corporate signature, must be secured by such collateral as the Surety finds appropriate, and must include the personal indemnification of the Contractor, each holder of at least 20% ownership interest in the Contractor, and any spouse. The GIA must reflect the proper legal name of the small business and must be signed and dated prior to the issuance of any bonds. A new GIA must be executed if the business name or corporate structure changes, or if the contractor changes surety companies.

g. Business Bank Line of Credit (BLOC)

Evidence of a bank line of credit, signed and dated by the bank, may be used to qualify a Contractor for SBG assistance. It should include the amount of BLOC, the amount available for use, any collateral provisions, and the expiration date. Business BLOCs must be provided by federally recognized lending institutions, including SBA approved lending partners. Private equity and factoring firms are not acceptable.

2. Retention of Forms and Information

The PSB Surety must retain all SBA Forms, any documentation submitted by the small business, and all other documentation related to the bond which SBA has guaranteed, in digital or paper format for the term of each bond, plus any additional time as may be required to settle any claims of the Surety for reimbursement from SBA and to attempt salvage and recovery, plus an additional

three years. If there are any unresolved audit findings in relation to a particular bond, the Surety must maintain the related certifications and other information until the findings are resolved.

### 3. Notification of Bonds

The PSB Surety must notify SBA electronically through CAFS of all Bid and Final Bonds, and any Ancillary Bond thereto, that it executes no later than 10 business days following bond Execution.

Before the Surety issues the Final Bond, the Principal must electronically pay any fee due SBA through [Pay.gov](https://www.pay.gov) website operated by the U.S. Department of Treasury

<https://www.pay.gov/public/home>. In addition, the Surety must pay through [Pay.gov](https://www.pay.gov) any fee it owes SBA no later than 60 days after the Surety notifies SBA of the Execution of the Final Bond.

The PSB Surety must also notify SBA electronically through CAFS of all increases and decreases in the Contract or bond amount no later than 10 business days following notice to the Surety of any increase or decrease. The fees due from the Principal and the Surety on any increase in the Contract or bond amount must be remitted to SBA when the increase(s) to the Contract or bond amount aggregates 25% of the original contract or bond amount or \$500,000, whichever is less. SBA may deny liability with respect to any Final Bond for which SBA did not receive timely notice.

### 4. Loss and Reinstatement of Eligibility of Principal and its Affiliates for Further SBA Bond Guarantees

- a. The Principal and its Affiliates are ineligible for further SBA bond guarantees under any of the following circumstances:

- (1) Legal action under the bond has been initiated;

- (2) The Obligee has declared the Principal to be in default under the Contract;
  - (3) The Surety has established a claim reserve for the bond of at least \$1,000;
  - (4) The Principal, or an of its Affiliates, has defaulted on an SBA-guaranteed bond resulting in a Loss that has not been fully reimbursed to SBA, or SBA has not been fully reimbursed for any Imminent Breach payments;
  - (5) The guarantee fee has not been paid by the Contractor; and
  - (6) The Principal committed fraud or material misrepresentation in obtaining the bond guarantee.
- b. Reinstatement of Eligibility of a Principal and its Affiliates. At any time after a Principal becomes ineligible for further bond guarantees under paragraph 6.a. above:
- (1) The PSB Surety may recommend to OSG that the eligibility of the Principal and its Affiliates be reinstated, and OSG may agree to reinstate the Principal, if the Surety has settled its claim with the Principal, or any of its Affiliates, for an amount the that results in no Loss to SBA or in no amount owed for Imminent Breach payments, or the D/SG finds good cause for reinstating the Contractor notwithstanding the Loss to SBA or amount owed for Imminent Breach payments. Good cause may exist, for example, if the Loss was attributed solely to the acts or omission of a co-owner who is no longer a part of the business, or;
  - (2) The PSB Surety may reinstate a Principal's eligibility upon the Surety's determination that further surety bond guarantees are appropriate after the Principal was deemed

ineligible for further SBA bond guarantees under paragraph 6.a (1), (2), (3), (5), or (6) above.

Note: The Surety is the only party that may request reinstatement of a Contractor. The Surety shall not direct or encourage a Contractor, the Contractor's attorney, or the Contractor's current agent to contact SBA regarding the reinstatement of the Contractor. If this occurs, SBA personnel will refer the party to the Surety of record.

### Chapter 3. Claims and Recovery

#### 1. Notice of a Potential Claim

The Surety must notify SBA within 30 calendar days of the assigned Surety Bond Guarantee number of any Principal when: (*see Appendix 2*)

- a. Legal action against the bond has been instituted;
- b. An obligee has declared the Principal in default; or
- c. The Surety has established a claim reserve for the bond or has added to a claim reserve.

#### 2. Imminent Breach

##### a. Notification

SBA will reimburse a PSB Surety for the guaranteed portion of payment the Surety makes to avoid or attempt to avoid an Imminent Breach of the terms of a Contract covered by an SBA guaranteed bond. The PSB Surety does not need to obtain prior SBA approval to make Imminent Breach payments, except that the PSB Surety may request SBA to approve payments that exceed 10% of the Contract amount prior to the Surety making the payment. The aggregate of SBA's reimbursement for Imminent Breach payments cannot exceed 10% of the Contract amount unless the Administrator determines that a greater payment (not to exceed the guaranteed portion of the bond penalty) is necessary and reasonable. SBA will not make duplicate payments under an Imminent Breach and default.

##### b. Documentation

Effective Date: 1/24/2021



The PSB Surety must maintain all records of payments made to avoid Imminent Breach.

### 3. Claims Bordereau

The Surety must submit its claims for reimbursement for its Losses as a result of a default or Imminent Breach through the electronic Claims Bordereau available in CAFS. The Surety must submit the bordereau no later than 90 days from the date that it paid the amount. Subject to the offset provisions of [13 CFR Part 140](#), SBA will reimburse the Surety within 45 days of receipt of the Surety's request for reimbursement of the date that SBA receives all additional information requested.

a. The Claims Bordereau must contain the following certification:

“The undersigned, being duly authorized, hereby certifies that this bordereau is true and correct to the best of my knowledge. I also certify that all bid, payment and performance bonds, including increases of bond amounts, have been approved within the allotment for the period during which such bonds or increases were approved. I further certify that all premiums and fees received, claim payments made, and recovery instruments and that such substantiating documents are retained by the surety.”

b. The PSB Surety inputs the claims information into CAFS, generates and signs the electronic bordereau, and forwards the bordereau to the Claims and Recovery Division staff for approval.

### 4. Denial of Liability

SBA may deny liability under the guarantee (in whole or in part within its discretion) based on any of the grounds listed in [13 CFR 115.19](#) and [115.71](#). Listed below are examples of the circumstances that are grounds for denial of liability.

- a. The Principal did not qualify as a small business.
- b. The bond was not required under the bid solicitation or Contract.
- c. The contractor fee was not paid.
- d. The Surety fee was not paid.
- e. Work began prior to obtaining SBA's guarantee.
- f. Original contract amount exceeds the statutory limit.
- g. Ineligible type of Contract.
- h. Surety's failure to obtain a General Indemnity Agreement (GIA).
- i. Bonds(s) amount exceeds Contract amount.
- j. Surety did not notify SBA timely of possible default/claim.
- k. Surety's negligence in handling losses.
- l. Surety's material misrepresentation or omission of material fact.
- m. Surety committed a substantial violation of SBA regulations.
- n. Amount of guaranteed bonds exceeded the allotment for the period during which they were approved, and SBA's approval had not been obtained.
- o. Loss was related to a bond which was not properly reported to SBA; and
- p. Loss incurred was not attributed to a contract for which an SBA guaranteed bond has been approved.

## Chapter 4. Subrogation and Recovery

### 1. Surety Responsibility

The Surety must pursue all sources of salvage and recovery and must reimburse or credit SBA for any recovery received within 45 days of receipt by the Surety. The Surety must reimburse or credit SBA in the same proportion as SBA's share of the Loss.

### 2. Recovery Bordereau

Recovery must be reported to SBA on the electronic recovery bordereau, which must contain the following certifications:

“The undersigned, being duly authorized, hereby certifies that this bordereau is true and correct to the best of my knowledge. I also certify that all bid, payment and performance bonds, including increases of bond amounts, have been approved within allotment for the period during which such bonds or increases were approved. I further certify that all premiums and fees received, claim payments made, and recoveries received are substantiated by receipts, payroll sheets, copies of surety's draft, claimants invoices, assignment and releases and recovery instruments and that such substantiating documents are retained by the surety.”

### 3. Recovery Payments

For Active (currently participating) Sureties, Non-Active (Sureties who are not actively submitting applications) and Defunct Sureties, all recovery payments are paid through [Pay.gov](https://www.pay.gov).

#### a. Recovery Not Received by SBA

Effective Date: 1/24/2021

If the PSB Surety has not reimbursed SBA for, or credited SBA with, any recovery received within 45 days of the Surety's receipt as indicated in the Recovery Bordereau, the following steps will be taken:

- (1) OSG will contact the Surety to verify that the money was paid through [Pay.gov](https://www.pay.gov). If the monies have not been paid, OSG will request remittance in writing.
- (2) OSG will monitor the receipt of the monies for approximately one week and will follow up with the Surety if the recovery is still outstanding.
- (3) If the Surety fails to remit recovery monies within two weeks of SBA's initial remittance request, the D/SG will transmit a demand letter to the Surety and place a temporary hold on all claims payments associated with the bond in subject. SBA will also give notice to the Surety that its preferred status is suspended based on the Surety's failure to remit the recovery monies and that the suspension will remain in effect until all monies are received. *(see Appendix I)*

b. Recovery Applied to an Incorrect PSB Number

If the Surety has applied the recovery monies to an incorrect bond, the Surety must immediately report the error to SBA upon discovery. SBA is not responsible for determining that the recovery monies have been applied to the incorrect bond.

#### 4. Indemnity Settlements

Unless SBA notifies the Surety otherwise, the Surety must take charge of all claims or suits arising from a defaulted bond, and compromise, settle or defend the suits. The PSB Surety must handle and

negotiate all settlements in the same manner as it does on non-guaranteed bonds. The Surety must notify SBA of all settlements reached and digitally maintain related records. All records must be uploaded to [CAFS](#) under the associated bond number. The Surety must submit SBA's guaranteed share of the settlement amount with 45 days of the Surety's receipt.

a. Impact of Surety Company Financial Status

(1) Settlements Executed Prior to the Surety Company's Status Change:

If a settlement between the small business and the PSB was entered into prior to the Surety company's status change to defunct, rehabilitation, or liquidation, then the amount and the terms of the settlement will stand as the duly renegotiated debt.

(2) Amending Existing Settlements After the Surety Company's Status Change:

If a settlement was executed prior to the Surety Company's status change to defunct, in rehabilitation, or in liquidation, the settlement may be amended by agreement between the Contractor and a State Insurance Department, subject to SBA's approval of the amended settlement.

**Chapter 5. Sureties that are Defunct, in Rehabilitation or in Liquidation**

If a Surety becomes insolvent, all rights or benefits conferred on the Surety under a valid and binding PSB Agreement will accrue only to the trustee or receiver of the Surety. SBA will not be liable to the trustee or receiver of the insolvent Surety except for the guaranteed portion of any loss incurred and actually paid by such Surety or its trustee or receiver under guaranteed bonds. The State Insurance Department, or its equivalent, where the Surety is located becomes responsible for settling claims and handling all claims matters. The trustee or receiver must submit to SBA quarterly status reports accounting for all claims paid, all funds received, and all settlements being considered. All correspondence concerning Sureties that are defunct, in rehabilitation, or in liquidation should be referred to the Claims and Recovery Division supervisor.

## **Chapter 6. Audit of a PSB Surety**

SBA's objective is to examine the files of the PSB Surety to determine whether the Surety has complied with established law, regulations, policy, guidelines, procedures and the PSB Agreement with respect to the Surety's underwriting and credit analysis, its documentation of claims and claims settlement procedures and activities, its recovery procedures and practices, the Surety's minimization of Loss, and to determine the Surety's loss ratio in comparison with other Sureties participating in the PSB Program to a comparative degree. The audits are performed in the office of the PSB Surety or Agent.

### **1. Frequency of PSB Examination**

Each PSB Surety is subject to an examination at least once every 3 years.

### **2. Records Retention**

The Surety must retain digital or paper records for the term of each bond, plus any additional time required to settle any of the Surety's claims for reimbursement from SBA and to attempt salvage and recovery. The Surety must maintain digital or paper records related to unresolved examination findings related to a specific bond until the findings are resolved.

a. The Surety must maintain the following digital or paper records for each bond:

- (1) A copy of the bond;
- (2) A copy of the bonded Contract;
- (3) All documentation submitted by the Principal in applying for the bond;

- (4) All information gathered by the Surety to review the Principal's application;
- (5) All documentation related to the notice of a claim situation;
- (6) All records of any accounts into which fees and funds obtained in the mitigation of Losses were paid and from which payments were made under the bond, as well as any trust accounts and any reconciliations of such accounts;
- (7) All documentation relating to efforts to mitigate Losses or concerning Imminent Breach;
- (8) All records of any accounts into which fee and funds obtained in the mitigation of Losses were paid and from which payments were made under the bond, as well as any trust accounts and any reconciliations of such accounts;
- (9) Documentation of each unanswered requests for jobs status reports and any job status reports received from the Obligee; and
- (10) All documentation related to any collateral held by the Surety.

### 3. Responsibility of a PSB Surety

The Surety must make its records available for all audits scheduled by OSG. If the Surety fails to consent to an audit or produce the specified records, SBA may suspend the preferred status of the Surety, and SBA may also refuse to honor claims submitted by the Surety until the Surety consents to the audit and provides the records.

### 4. Audit Process

#### a. Pre-Audit Planning

Effective Date: 1/24/2021



- (1) SBA will send pre-audit letter and prior audit reports to the Surety.
  - (2) SBA will select files for review and review the results of prior audits.
  - (3) SBA will notify the Surety of the files selected for review.
  - b. Entrance Conference: SBA meets with Surety to discuss audit purpose and procedures.
  - c. Audit: SBA reviews documentation based on audit checklist.
  - d. Exit Conference: SBA meets with Surety to discuss findings and any issues that the Surety needs to address. Surety has 5 days to respond to any issues identified by SBA.
  - e. Post Audit: SBA issues final report.
5. Underwriting Checklist for Files. SBA's review of the Surety's underwriting will include, but not be limited to, the following:
- (1) Is the Surety's file available and complete to review?
  - (2) Did the small business including its affiliates meet the SBA size standard?
  - (3) Does the bid solicitation or contract require a surety bond?
  - (4) Does the Surety or any of its affiliates own directly or indirectly 10% or more of the small business?
  - (5) Is the contract amount within statutory limitation?
  - (6) Is there only one contract for this project?
  - (7) Was the bond executed prior to the date of SBA's guarantee?
  - (8) Was the bond executed before commencement of work?
  - (9) Are all applicable SBA Forms (e.g., 991, 994, 994F) in file?
  - (10) Is a General Indemnity (GIA) signed by all appropriate parties?

- (11) Has the Surety provided a valid Power of Attorney (POA) for the bond?
- (12) Have all of the appropriate individuals completed the questions on citizenship and character in, as applicable, either SBA Form 912 or Part V of SBA Form 994 (Exp. 9/30/22) or any successor form thereto?
- (13) Did the Surety properly follow the Fingerprint Background Check procedures?
- (14) Was the Principal's guarantee fee remitted to SBA prior to approval of SBA Form 990?
- (15) Was the Surety's fee remitted to SBA within 60 calendar days of SBA's approval?
- (16) Did the Surety monitor the small business progress on the job?
- (17) Did the Surety request job status reports and are they in the file?
- (18) Were modifications to the contract or bond amount and fee change reported and remitted properly to SBA

6. OSG Claims and Recovery Compliance Checklist:

- (1) Is there evidence in the file of the following actions?
  - a) Oblige declaring the small business in default;
  - b) The Surety established or added to a claim reserve; or
  - c) Legal action against the bond was instituted.
- (2) Was SBA notified within 30 days of Surety knowledge of one of the actions described in paragraph (1) above?
- (3) Was claim for reimbursement request submitted?
- (4) Does Surety's file contain fee documentation?

- (5) Was the claim for reimbursement request submitted to SBA within 90 days from the date the Surety paid the amount?
- (6) Is there evidence of a substantial change in the status of the project or the amount of the loss reserve?
- (7) Is there evidence that a claim or any portion thereof should not have been paid by SBA?
- (8) Did the Surety make any payment to avoid an imminent breach and, if so, does the payment comply with SBA regulations?

7. Recovery Compliance Checklist:

- (1) Did the Surety pursue all avenues to recover the losses incurred?
- (2) Did the Surety prepare an SBA Bordereau to SBA within 45 days of disbursement?
- (3) Is there evidence that a claim or portion thereof should not have been paid?
- (4) Was SBA notified of any recovery via Claims and Recovery Bordereau?

## APPENDIX 1: RECOVERY REQUEST LETTER

[Date]

[Name of Surety]  
[Address]

RE: [SBA Bond Number(s)]  
Notice of Suspension of Preferred Status Until Recovery Monies Remitted to SBA

Dear [Name]:

According to the Claims and Recovery Bordereau, [name of surety] received recovery on the above-referenced bond in the amount of [insert amount(s)] on [insert date (s)]. [name of surety] was, therefore, required to remit to SBA its share of the recovery no later than 45 days after receipt, or no later than [insert date]. For its failure to reimburse SBA, SBA is hereby giving notice to [name of surety] of the suspension of its preferred status until it remits the required amount to SBA. During this suspension, [name of surety] is prohibited from issuing any further bonds with SBA guarantee.

As a reminder, 13 CFR § 115.70(b) requires that,

*“...The Surety must handle and process all claims under the bond and all settlements and recoveries in the same manner as it does on non-guaranteed bonds.” 13 CFR § 115. 70(b).*

Please remit the funds owed to SBA via [www.pay.gov](http://www.pay.gov) where applicable. If a claim is still open, status reports are due to SBA every six (6) months, or sooner if something significant occurs. If the Indemnitor(s) have submitted a repayment plan or a settlement proposal, please submit to SBA for review. In addition, provide an updated and detailed status on your recovery efforts on the above-referenced bond(s). If you are requesting that we close the file, based on the above criteria, you must email or upload to CAFS all required documentation, i.e., your recommendation to close the file, along with company financials, and asset search, and/or bankruptcy discharges for the Principal/Indemnitors, to **(Email Address)**.

We ask that you respond to this correspondence by **[date]**.

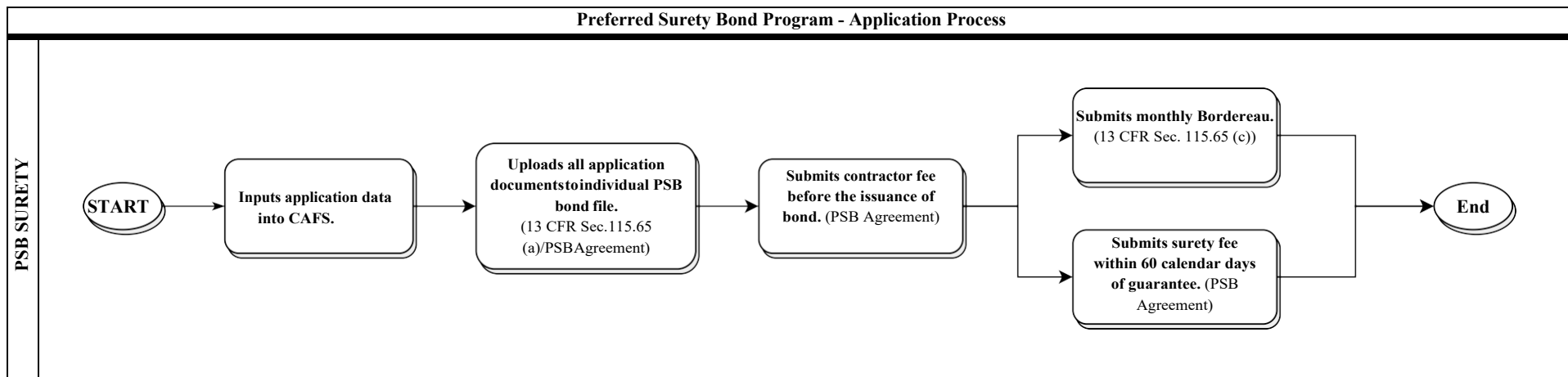
Please do not hesitate to call me on **(Telephone Number)**, should you have any questions or concerns.

Sincerely,

[Name]  
Director, Office of Surety Guarantees  
U.S. Small Business Administration

**APPENDIX 2: PROCESS MAPS**

Application Submission Process



Claims and Recovery Submission Process

