



SMALL BUSINESS ADMINISTRATION

Surety Bond Guarantee Program Fees

AGENCY: U.S. Small Business Administration.

ACTION: Notification of Surety Bond Guarantee Program Fees.

SUMMARY: This document announces that the U.S. Small Business Administration (SBA) is adopting the guarantee fees in the amounts that SBA has been charging during the temporary fee reduction initiative that began October 1, 2018 and continues through September 30, 2020. These guarantee fees are charged to all Surety companies and Principals on each guaranteed bond (other than a bid bond) issued in SBA's Surety Bond Guarantee (SBG) Program.

DATES: The fees described in this document will be adopted as of October 1, 2020 and will apply to all SBA surety bond guarantees approved on or after October 1, 2020.

FOR FURTHER INFORMATION CONTACT: Jermaine Perry, Management Analyst, Office of Surety Guarantees; (202) 401-8275 or jermaine.perry@sba.gov.

SUPPLEMENTARY INFORMATION: Under its SBG Program, the SBA guarantees a certain percentage of bid, payment, and performance bonds for small and emerging contractors who cannot obtain surety bonds through regular commercial channels. The SBA guarantee incentivizes Sureties to provide bonding for small businesses and thereby assists small businesses in obtaining greater access to contracting opportunities. Pursuant to its statutory authority to "establish such fee or fees for small business concerns and premium or premiums for sureties as it deems reasonable and necessary," and to administer the SBG Program "on a prudent and economically justifiable basis," 15 U.S.C. 694b(h), SBA assesses a guarantee fee against both the small business concern (the Principal) and the Surety and deposits these fees into a revolving fund to cover the program's liabilities and certain program expenses.

SBA's rules provide that the amount of the fees to be paid by the Surety and the Principal will be determined by SBA and published in Notices in the Federal Register from time to time. *See* 13 CFR 115.32(b) and (c) and 115.66. On July 30, 2018, SBA published a notification in the Federal Register (83 FR 36658) that announced that, for all guaranteed bonds approved during the one year period beginning October 1, 2018 through September 30, 2019, the Surety fee would decrease from 26% of the bond premium to 20% of the bond premium, and the Principal fee would decrease from \$7.29 per thousand dollars of the contract amount to \$6 per thousand dollars of the contract amount (the decrease in the Surety and Principal fees referred to, collectively, as "lower fees"). The announcement stated that SBA will evaluate whether the lower fees will result in an increase in the bond activity level of the SBG Program and, if so, whether any such increased level of activity will generate sufficient revenues to offset the reduced fee amounts. SBA invited comments on this temporary initiative and received a total of eleven comments, with nine comments from surety companies and agents and two comments from trade associations, all of which expressed support for the lower fees.

SBA subsequently published a notification in the Federal Register (84 FR 40466) extending the lower fees through September 30, 2020 to provide additional time for SBA to evaluate the fee reduction due to the Government lapse of appropriation, which spanned from December 22, 2018 through January 25, 2019. During the extension, SBA continued its evaluation into how lower fees affect the SBG Program, including program utilization by surety companies, surety agents and small businesses; the size and characteristics of the portfolio; and the risk level of the program, including cash flow and defaults. A final report of the evaluation study conducted by SBA (which covered the period between October 1, 2018 and December 31, 2019) will be published on www.sba.gov/evaluation.

In addition to the report and the public comments in support of the lower fees, SBA has considered the effect of the lower fees on the annual cashflow (fees collected minus claims paid) and

the reserves in the SBG Program's revolving fund. The annual cashflow during the period of the temporary fee reductions, between October 1, 2018 and September 21, 2020, maintained a surplus, resulting in an increase in the reserves in the revolving fund. SBA has determined that the lower fees are reasonable to maintain sufficient funds in the revolving fund to cover the cost of anticipated losses in the SBG program. Although the report on the evaluation study found that the lower fees did not increase the number or values of bonds during the fee evaluation period, the lower fees charged to the Principal and Surety will reduce the cost of bonding to small businesses, and result in a projected average annual cost savings of \$3.5 million for Principals and Sureties. In addition, the evaluation report indicated that "higher volume surety producers were more likely to respond more positively or optimistically to the potential benefits of continuing or increasing the [fee] reductions."

In light of the above, SBA has decided to adopt the lower fees of 20% of the bond premium for the Surety fee and \$6 per thousand dollars of the contract amount for the Principal fee, and will continue to apply these lower fees to all SBA surety bond guarantees approved on or after October 1, 2020. SBA will actively monitor the performance of the SBG program to ensure that the fees are reasonable and necessary and allow SBA to administer the SBG program on a prudent and economically justifiable basis.

Authority: 15 U.S.C. 694b(h); 13 CFR 115.32(b) and (c) and 115.66.

Dated: September 29, 2020.

William Manger,
Associate Administrator/Chief of Staff, Office of Capital Access.

[FR Doc. 2020-21876 Filed: 9/29/2020 4:15 pm; Publication Date: 10/2/2020]