Surety Guidelines to Paycheck Protection Program Loans

What are Sureties saying?

Despite being considered “essential” in many jurisdictions, construction companies are still feeling the effects of COVID-19. This can include delays in project starts, cancellation or postponement of projects, labor and supply chain constraints. These realities are threats to both top and bottom lines as well as straining cash flow. With the passages of the Coronavirus Aid, Relief and Economic Security (CARES) Act, the federal government, through the Small Business Administration (SBA), is hoping to provide relief to small businesses affected by the pandemic.

There is a wealth of good information available regarding the Paycheck Protection Program (PPP) that was announced as a part of the CARES Act. The PPP is a federal program that has been allotted $349 billion to help small business (fewer than 500 employees) keep their workers employed.

This is not to be confused with the SBA’s Economic Injury Disaster Loans (EIDL) which have been available for a little longer. A comparison of these two relief options can be found here. The biggest advantage of a PPP loan is the potential for forgiveness of the loan. A thorough overview of the PPP can be found here.

During CSDZ’s recent Virtual Town Hall discussing COVID-19 and Surety Considerations, a question was asked about the impact of these programs to a contractor’s surety program. **More specifically, will Surety Companies pull back support for contractors that choose to take advantage of these relief options?**

Our CSDZ Surety Team has been actively engaging leadership at Surety Companies around this specific topic as well as other COVID-19 related concerns. The overall message from these conversations is that Surety Companies will not “penalize” any contractor that looks to take advantage of these programs. In fact, many Surety Companies have voiced support of these programs and the benefit they can offer to our mutual clients. **The low interest rates, potential for loan forgiveness and extra liquidity during these unprecedented times are all attractive from a surety perspective.** Keep in mind, there are additional perspectives to consider with these programs which would be better addressed by your CPA and legal partners.

To be clear, a reduction of surety credit can happen for a variety of reasons. The purpose of this whitepaper is to convey CSDZ’s position that a contractor’s surety program will not be negatively impacted solely by the decision to take advantage of these programs. More likely, any reduction of a surety program would be the result of many other factors that are evolving in the current surety marketplace.

Coming out of the Great Recession, surety credit has been relatively easy to secure with generous terms, conditions and rates. The COVID-19 outbreak is turning out to be a catalyst for change in this regard. **For this reason, it is crucial to have a strong relationship with your Surety Company fostered by your Surety Broker.**

Here at CSDZ, we are part of the construction industry. We’re deploying a wealth of resources to walk side by side with construction firms through this difficult time. You can find more information at our COVID-19 Resource Center or by reaching out to anyone on our team.