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Firm opening doors for small contractors

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By Mark Anderson
Tags: Associated General Contractors of Minnesota, CCI Surety Inc., Dave Semerad, Gilbert Odonker, Michael Williams, National Association of Minority Contractors, North American Construction Services Inc.

Firm's experience helps minority, women-owned companies pass muster

A surety bond company specializing in the needs of small minority and women-owned contracting firms helped Gilbert Odonker and his Yaw Construction win their first major public contract. (Staff photo: Bill Klotz)

Back in 2009 contractor Gilbert Odonker had a chance to win his three-year-old construction company's largest contract to date — $2 million to build a noise wall on a stretch of Highway 610 in Maple Grove.

To win that job he needed to post a surety bond, guaranteeing that the work would be done and his creditors paid, even if Odonker and his north Minneapolis-based Yaw Construction failed to perform on their end of the deal.

Based on experience, though, Odonker knew he faced a challenge in finding an insurer willing to take that risk on a young company.

So he turned to an underwriter he had met recently, CCI Surety Inc., a Golden Valley-based firm that focused on small contractors and on helping meet their niche financing needs: surety bonds, escrow services, and recently, working capital.

CCI works with small contractors, particularly minority- or women-owned firms that historically do not have large amounts of capital or long track records to back them up.

"Surety bond companies generally look at only a couple standard financial items," said Odonker, who is also vice president of the National Association of Minority Contractors' upper Midwest chapter. "They look at your credit, they require you to have a lot of money in the bank, and if those factors aren't all in line, most surety companies can't help you."

CCI looked beyond the boilerplate financials, got to know Odonker and his business, and was finally able to underwrite the Maple Grove bond and several more for Yaw Construction. "They've definitely been valuable to us," Odonker said. "And their services are needed in our marketplace."

That need has grown in the wake of the four-year industry recession, especially for minority- and women-owned companies, said Dave Semerad, chief executive officer with the Associated General Contractors of Minnesota.

"Most of them are emerging firms without a lot of capital, and the underwriting process by bond companies and by banks has gotten a lot more rigorous," Semerad said.

As underwriting standards tightened, the financial conditions deteriorated for most contractors, too — projects dried up, payments to contractors slowed, and "firms have been bidding jobs with no profit margin in order to keep working," Semerad said. All those factors make bond underwriters and lenders even more uneasy, he added.

CCI and its affiliate North American Construction Services Inc., both founded and owned by Michael Williams, try to dig deeper to measure a contractor's ability to complete a job and pay its bill.

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Williams' firms underwrite the surety bonds but add an expanded escrow service, which doesn't just control money and payments but takes a fine-toothed comb to a contractor's bidding, credit and administrative procedures. That ramped-up funds control approach often helps contractors identify where profits are leaking away and eliminate those inefficiencies.

It also adds the financial discipline the CFO applies at a larger company, Williams said. "A lot of times these contracts are bringing in our clients' biggest profits ever, and they want to take some of that to buy a piece of equipment that they've been waiting for," he said. "But we keep funds going out on the plan and remind them that if costs go up and that profit disappears then they'd have trouble."

Next need: cash

Michael Williams is recruiting nonprofit lending partners to add working capital to the list of financial tools his companies can supply to small contractors. (Staff photo: Bill Klotz)

As the recession's effects dragged on, Williams says small contractors encountered another financial hurdle — a shortage of working capital. He started recruiting local nonprofit lending partners last year to help fill that hole.

One of those partners is the Minneapolis-based Metropolitan Consortium of Community Developers, which has provided financing and advice to very small Twin Cities businesses for more than a decade.

MCCD had rarely ventured into contractor financing, but it recognized that the need for credit in that niche has grown, said Kris Maritz, a loan specialist at MCCD. "When small contractors win a contract with a nonprofit or the city to rehab a dilapidated building, they need to begin buying materials and lining up subcontractors, and most of them don't have the cash flow or the lines of credit to do that."

Without experience in the construction industry, MCCD lenders didn't feel comfortable underwriting loans to contractors.

So they joined forces with Williams' companies on about a half dozen projects in 2011 — Williams' team provided bonds and escrow, and MCCD provided loans with terms of up to several months. Those helped contractors launch projects; they repaid more quickly than MCCD's traditional three- to five-year business loans, enabling those funds to circulate faster. And NACS's escrow program guarantees repayment and put MCCD a senior position, something it generally didn't have.

"Michael and his people understand the construction industry, and they stayed very involved with the clients, and that gave us a lot of confidence, too" Maritz said. MCCD expects to make more contractor loans this year.

Two other Twin Cities nonprofits, the Metropolitan Economic Development Association and the Neighborhood Development Center (NDC), also made loans in collaboration with Williams on successful projects. Lenders in those groups said they anticipate doing more, too.

"We make loans based on demand, and we're seeing a lot more demand from contractors," said Brian Singer, NDC's loan director. He attributed that spike to the collateral losses that many small business owners have experienced as their savings and home values shrunk. "They were bankable before, but they aren't now," Singer said.

That failure by a growing number of contractors to meet conventional underwriting standards showed up in top-line expansion at both CCI Surety and NACS.

New escrow contracts at NACS grew from 92 worth $76 million in 2008 to 270 worth $211 million in 2011, registering double-digit growth each year. CCI Surety's bond revenue increased from $3 million in 2007 to $8.2 million last year. The CCI payroll jumped from eight workers to 18 in that period.

Those new accounts are good news for CCI and NACS, but many of those deals also reflect a contractor winning a chance to expand, said Carlos Lachmansingh, a native Guyanan who has operated an electrical products supply business in south Minneapolis since 1990. He has done business with Williams since 1994.

"Once you prove to your customers that you can manage money and fulfill a contract, they'll work with you again and more doors start to open," Lachmansingh said. "That's how you build capacity, and Michael Williams deserves credit for helping a lot of minority-owned companies do that."

Many small contractors fell short of underwriting standards during the construction meltdown, and that meant growth for CCI Surety.

Revenue / Employees

2008: $4.5M / 10

2009: $5.0M / 11

2010: $6.0M / 14

2011: $8.2M / 16

Source: CCI Surety Inc.

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One Response to "Firm opening doors for small contractors"

Roger Clegg **Says:**
March 6th, 2012 at 9:05 am

Why do race, ethnicity, and sex need to be considered at all in deciding who gets awarded a contract? It's good to make sure contracting programs are open to all, that bidding opportunities are widely publicized beforehand, and that no one gets discriminated against because of skin color, national origin, or sex. But that means no preferences because of skin color, etc. either–whether it's labeled a "set-aside," a "quota," or a "goal," since they all end up amounting to the same thing. Such discrimination is unfair and divisive; it breeds corruption and otherwise costs the taxpayers and businesses money to award a contract to someone other than the lowest bidder; and it's almost always illegal—indeed, unconstitutional—to boot (see 42 U.S.C. section 1981 and this model brief: **http://www.pacificlegal.org/page.aspx?pid=1342**). Those who insist on engaging in such discrimination deserve to be sued, and they will lose.

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