

## **32.304-7 Contract surety bonds and loan guarantees.**

(a) Contract *surety* bonds are incompatible with the Government's interests under *guaranteed loans*, unless the interests of the *surety* are subordinated to the *guaranteed loan*.

(b) If a substantial share of the contractor's defense contracts are covered by *surety* bonds, or the amount of the bond is substantial in relation to the contractor's net worth, the agency *shall* not authorize the guarantee of a loan on a bonded contract unless the *surety* enters into an agreement with the financing institution to subordinate the *surety's* rights and *claims* in favor of the *guaranteed loan*.

(c) The agency approval of a guarantee for a loan involving relatively substantial subcontracts covered by *surety* bonds *shall* also depend on the establishment of a reasonable allocation agreement between the *sureties* and the financing institution. The agreement *should* give the financing institution the benefit, with regard to payments to be made on the contract, of the portion of its loans fairly attributable to expenditures made under the bonded subcontracts before notice of default.

**Parent topic:** [32.304 Procedures.](#)