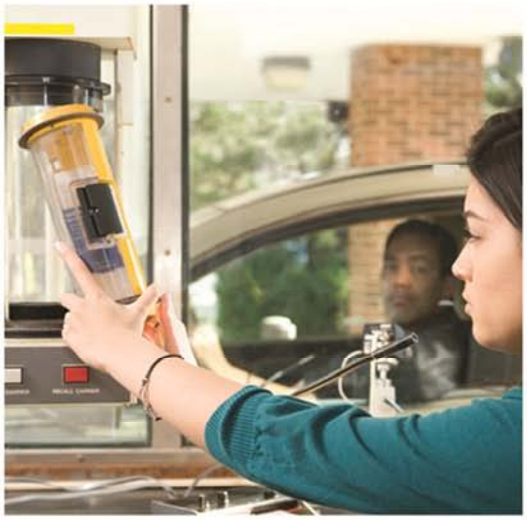




SSBCI PROGRAM PROFILE: CAPITAL ACCESS PROGRAM

May 17, 2011

State Small Business Credit Initiative (SSBCI)

U.S. Department of the Treasury

CAPITAL ACCESS PROGRAM

State Small Business Credit Initiative

What is a Capital Access Program (CAP)?

A CAP is a loan portfolio insurance program that enables small businesses to obtain credit to help them grow and expand their businesses. In this program, when a participating lender originates a loan, the lender and borrower combine to contribute a percentage of the loan or line of credit, from 2% to 7%, into a reserve fund, held by the lender. The state matches the combined lender/borrower contribution, and sends the state contribution to the lender-held reserve fund. Each lender's total CAP reserve fund is available as cash collateral to cover losses on all loans in the lender's CAP portfolio. Participating loans are originated and serviced by the lender, and the lender may make claims to withdraw from the reserve for losses incurred in the case of a default.

What are the Credit and Loan Characteristics?

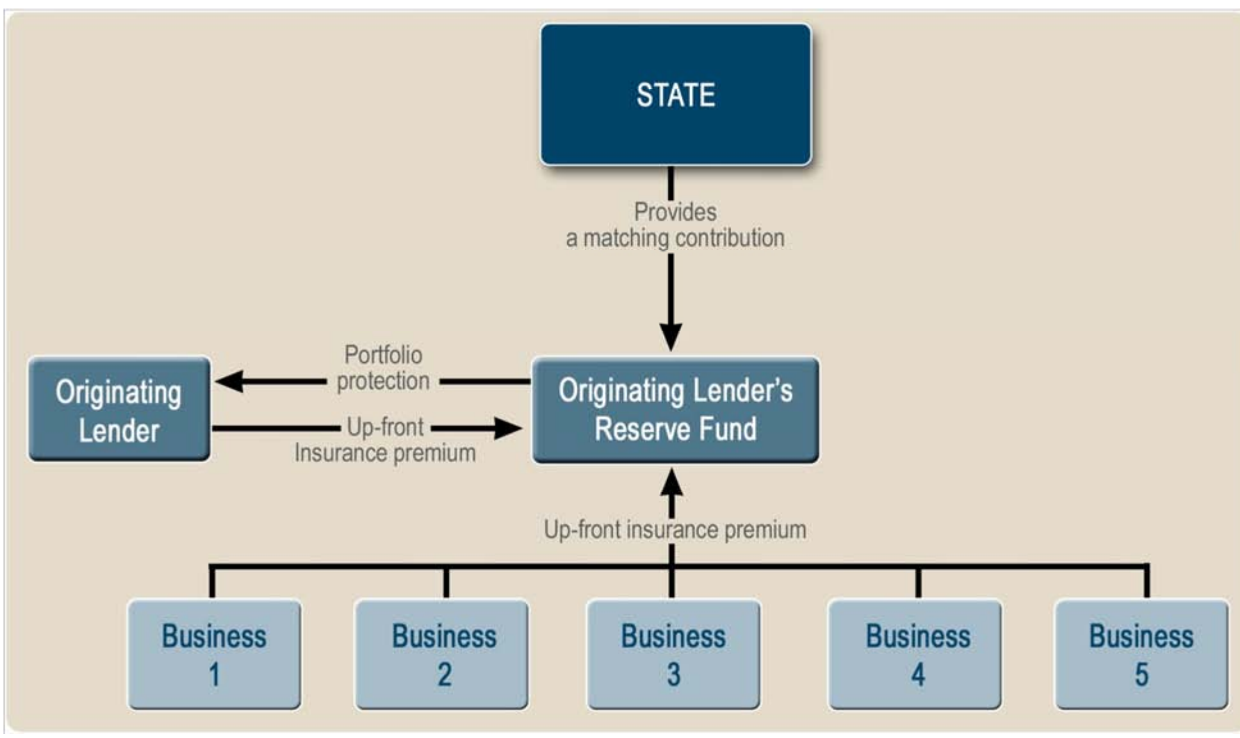
Like all credit programs, a CAP can be tailored to meet a state's objectives. Key credit and loan characteristics that should be considered in designing a CAP are described in the table below.

Characteristics	Description
What kinds of borrowers are eligible to participate?	• Typically, states set broad eligibility criteria for CAPs. Some states target specific industries, regions, and types of businesses by offering extra contributions to lenders' reserve funds. • Under SSBCI, maximum borrower size should not exceed 500 employees. In practice, small businesses are typically much smaller than 500 employees. • Corporations, partnerships, and sole proprietorships are eligible, including non-profits and cooperatives. • SSBCI Policy Guidelines provide specific guidance on certain borrowers who are prohibited from participating in this program.
What sizes of loans are eligible?	• Under SSBCI, the loan size must not exceed \$5 million. In practice, the average loan size ranges up to \$100,000. • Typically, loan sizes are relatively consistent to avoid one large loan loss depleting the reserve.
What types of loans are eligible?	• Broad eligibility on loan types, but usually term loans and lines of credit. • The CAP reserve fund is well-suited to smaller loans of similar risk characteristics, working capital loans, and revolving lines of credit.
How can loan proceeds be used?	• For any business purpose, including, but not limited to: start-up costs, working capital, business procurement, franchise fees, equipment, inventory, and the purchase, construction, renovation, or tenant improvements of an eligible place of business that is not for passive real estate investment purposes. • CAPs may not enroll the unguaranteed portions of Small Business Administration (SBA) guaranteed or other federally guaranteed loans without the express, prior written consent of the United States (U.S.) Treasury. • Restrictions apply to refinancing and other uses; please refer to the SSBCI Policy Guidelines for additional details.

Characteristics	Description
Who negotiates the terms of the loan?	• Interest rates, maturity, collateral, and other terms are negotiated between the borrower and the lender. • Under SSBCI, the combined borrower and lender contribution to the reserve fund must range from 2% to 7%. • The lender determines the enrollment fee based on the perceived level of transaction risk.
What are the program's strengths?	• Typically does not involve third-party review of the lender's credit underwriting and requires less intensive state management. • Fast turnaround. • Lender closes loans using their own documents. • A lender's reserve fund accumulates with each CAP loan, so lenders have an incentive to originate more CAP loans and build a larger reserve.

How Does a CAP Work?

A CAP is a loan portfolio insurance program. Whenever a lender makes a CAP loan, the borrower/lender contributes to a reserve fund held by the participating lender. Using SSBCI funds, the state then matches the combined contribution of the borrower/lender. The state may add extra contributions using non-federal funds for any targeted populations or geographies. Amounts in the lender's reserve fund are available to cover any losses incurred in its portfolio of enrolled loans.



Operating Mechanics	Description
What kinds of lenders are eligible to participate?	• Under SSBCI, any insured depository institution, insured credit union, or community development financial institution, as defined in section 103 of the Riegle Community Development and Regulatory Improvement Act of 1994. • Lenders must demonstrate sufficient commercial lending experience and financial and managerial capacity to participate.
Who originates loans in this program?	• Participating lenders originate loans and establish the amount of the borrower contribution to the reserve account.
Who has underwriting responsibility?	• The lender has underwriting responsibility after the borrower eligibility requirements have been established; the state will monitor use of loan proceeds under the program.
How are these loans monitored?	• State monitoring responsibilities include verifying loan eligibility, reviewing use of loan proceeds, and approving lender claims in the case of losses; the state is not responsible for any losses exceeding the state's contribution to the lender's reserve fund.
What kinds of fees may be charged?	• The state may use SSBCI funds to match an up-front contribution by the borrower/lender to the reserve fund; under SSBCI, the contribution from the borrower/lender must range from 2% to 7% of the loan amount; the state may use SSBCI to match this fee. Typically, contributions range from 3% to 4%. • Program fees, or additional contributions from the state using non-SSBCI funds, are not dictated by this program.
How long is a loan covered under CAP?	• State CAPs may have a duration longer than that of the SSBCI program, and lenders will be able to pay losses associated with enrolled CAP loans as long as their accounts have available balances. • Typically, states allow a lender to hold the accumulated reserve fund as long as a CAP loan is outstanding. • Some states recapture their contribution to the reserve fund if the reserve fund is large compared to the amount of outstanding CAP loans.
What percentage of the loan can be covered?	• A maximum 14% contribution can be made for each loan into the reserve fund (7% maximum from the lender/borrower, plus 7% maximum matching from the state using SSBCI funds). • Losses are 100% covered, up to the amount in the lender's reserve fund.

Operating Mechanics	Description
What happens in the case of a default?	• CAP lenders are entitled to file a claim for payment whenever a participating loan is written off. • Many states require that after payment of a claim by a lender, any recoveries from the borrower that exceed the amount needed to make the lender whole be deposited in the lender's reserve fund. • A small number of states also provide that, in cases where the lender's losses have been fully covered, the state will have the option of pursuing the borrower using the same recovery remedies available to the lender.
How does the reserve fund work?	• Payments from all parties—borrower, lender, and state—are deposited in a reserve fund. All losses on enrolled loans are paid from the reserve fund. • The reserve fund is typically maintained on deposit at the participating insured depository, with the state retaining co-ownership of the account.
What happens if a lender depletes its reserves?	• Early depletion is addressed in some states by allowing lenders to use payments from subsequently enrolled loans to pay prior losses.
What is the state's liability?	• State liability is limited to the funds in each lender's reserve fund; the state is also liable in the case of misused funds for potential federal clawback.

Who are the Key Stakeholders and What are Their Roles?

The stakeholders in a Capital Access Program include the state, financial institutions and an implementing agency/entity, if assigned by the state to manage the program. Implementing entities may include a specific department, agency, or political subdivision of the state, or an authorized agent of, or entity supervised by, the state.

Stakeholder	Role
What is the role of the state?	• Markets the program and enrolls eligible financial institution lenders; as part of the enrollment process, takes due care to ensure that enrolled lenders have the capacity to originate and underwrite small business loans successfully. • Verifies the eligibility of individual loans submitted by the lenders and that proceeds will be used for acceptable business purposes, typically by borrower self-certification. • Uses SSBCI funds to make matching contributions to the loan reserve fund. • Approves claims submitted by the lender, and approves disbursements from the reserve fund for valid claims.
What is the role of a lender?	• Originates, underwrites, and services loans. • Submits required enrollment and claims forms to the state, and obtains assurances of eligibility from each borrower.

Stakeholder	Role
What is the potential role of an implementing agency/entity?	• Acts on behalf of the state to administer the CAP. • Assists with marketing the program in their region or community. • May also operate other credit support programs.

What Kind of Operating Model Manages a CAP?

CAPs have very low operating costs. Many states staff their CAP with two staff; marketing and outreach staff would be additional. The key skills needed to start a program are the ability to market and enroll lenders into the program. Ongoing operational costs are minimal. The state must have the administrative resources to approve loan eligibility and verify claims. States may acquire these skills in-house, through agents such as Economic Development Corporations, or through collaboration with other state programs.

How Does CAP Help to Achieve a 10:1 Private Financing Ratio?

To be eligible for federal funding, a state is expected to reasonably demonstrate that, when considered with all other SSBCI programs of the state, such programs together have the ability to generate private lending of at least 10 times the new federal contribution amount, also known as the private leverage ratio, by December 31, 2016. Eligible private lending includes all loans or investments from a private source to an eligible borrower or eligible portfolio company, whether occurring at or subsequent to loan/investment closing, as well as any new infusions of cash by the borrower. CAPs, by their structure, have an implicit high leverage of private funds. As an example, if a CAP enrolls just two loans with the characteristics shown below, the “allocation time period private leverage ratio” for the CAP would be 30:1, which would be derived as follows:

	Loan A		**Loan B**		**Total**
a. SSBCI Contribution to Reserve Fund	$4,000	+	$6,000	=	$10,000
b. Private Financing	$100,000	+	$200,000	=	$300,000
Private Leverage Ratio (b to a)	**25:1**		**33.3:1**		**30:1**

When a state proposes multiple programs for SSBCI funding, the state must present the “allocation time period private leverage ratio” as a weighted average that takes into account the amount of “private financing” attracted over the allocation time period and the amount of “SSBCI funds used” over the allocation time period. CAP is useful in achieving the state’s overall 10:1 if the state is also considering other credit support programs with a lower leverage ratio.

Where Has a CAP Worked Well?

To date, 27 states have established CAPs to increase lending to small businesses. North Carolina’s successful program has been in operation since 1994. Key features of the North Carolina program were discussed in an SSBCI conference call on CAP and are summarized below. This information is not drawn from North Carolina’s SSBCI application.

Highlights from North Carolina's CAP

- **Overview:** The CAP in North Carolina is managed by the Rural Center for Economic Development. The program targets all North Carolina counties and aims to allow more small businesses to expand their operations and create new jobs.
- **Fees:** The program matches an up-front fee, typically 2% to 7%, paid by the lender and borrower. The combined amount is deposited into a pooled reserve fund held by the lender. The pooled fund includes matching fees from all NC-CAP loans made by the institution and covers losses in the event of a default.
- **Volume:** From 1994 through 2008, the North Carolina CAP issued 1,850 loans for over $103 million. The reserve fund totaled $3.6 million with a leverage ratio of 28.5:1.
- **Eligibility:** Loans generally range from $25,000 up to the maximum of $5 million. Both term loans and lines of credit are eligible.
- **Underwriting:** Participating institutions are solely responsible for approving all loans, setting their terms and deciding a loan loss reserve fee to be shared by the lender and borrower and matched by North Carolina CAP.
- **Marketing:** When the CAP was reinvigorated, North Carolina consulted the bankers association and state officials prior to choosing the CAP; both large banks and community banks have enrolled in the program.

Who Can You Contact With Questions on CAPs?

Treasury has posted policy guidelines and application materials on its website, available here: http://www.treasury.gov/ssbci. Questions may be answered via phone (202-622-0713) or email at SSBCIquestions@treasury.gov.