CAPITAL ACCESS PROGRAMS:
A Summary of Nationwide Performance

Department of the Treasury
January 2001

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January 10, 2001

Dear Friend:

Since 1986, when Michigan first developed the Capital Access Program (CAP) as a method to increase the availability of credit to small businesses, many states have gradually enacted CAPs of their own. In fact, by June 2000, nationwide cumulative CAP lending totaled over $1.5 billion.

Under the leadership of former Secretary Robert E. Rubin and now of Secretary Lawrence H. Summers, the Treasury Department has undertaken a series of initiatives to expand access to capital and to encourage business investment in economically distressed communities. These initiatives include a strong Community Reinvestment Act, the Community Development Financial Institutions Fund, BusinessLINC, and the New Markets Initiative.

As part of that capital access agenda, we compiled this third annual report in order to assess the reach of state-run CAPs and to explore the features that contribute to their success.

This report, Capital Access Programs: A Summary of Nationwide Performance, reviews:

- nationwide CAP lending trends through June 2000 from the 20 states and 2 municipalities that operate CAPs;
- CAP lending performance to underserved borrowers and communities;
- lessons learned from state-run CAPs.

I hope that this report will contribute to greater understanding of the performance of CAPs and their future potential as a tool to foster a vibrant small business financing market.

I would like to thank Alan Berube, author of this year's report, and to acknowledge the research assistance he received from Felton Booker and the earlier work of Clifton Kellogg, who authored the first two editions of this annual study for this office. If you have any questions or comments, please contact the Office of Community Development Policy at (202) 622-0016.

Sincerely,

Michael S. Barr
Deputy Assistant Secretary
Community Development Policy

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Executive Summary

In August 2000, the Treasury Department's Community Development Policy Office compiled this report summarizing the performance of Capital Access Programs (CAPs) based on a survey of the states and municipalities with such programs. This report is the third national review[1] to compile and assess:

- nationwide CAP lending statistics through June 2000 from the 20 states and 2 municipalities that operate CAPs;
- CAP lending performance through 1999 to targeted groups of borrowers such as those in low- and moderate-income communities;
- lessons learned from states' CAPs.

In addition to annual data on CAP lending in 1999, this report offers statistics on cumulative CAP performance through June 30, 2000.

The 14-year track record of state-run CAPs suggests that these programs encourage small business lending in a cost-efficient and simple way. Under CAPs, the bank and the borrower pay an up-front insurance premium, typically between 3% and 7% of the loan amount at the bank's discretion, which goes into a reserve fund held at the originating bank. The state matches the combined bank and borrower contribution with a deposit into the same reserve fund. The CAP reserve fund allows a lending bank to make slightly higher risk loans than conventional underwriting, with the protection of the reserve fund for its entire pool of CAP loans.

CAPs allow banks to use their own underwriting standards for eligible loans, without governmental approval of the loan-making decision. Compared with the staff intensiveness of other credit enhancement programs, CAPs require little administrative cost for banks, borrowers or the government. States consistently report that CAPs are staffed by 1 to 1.5 full-time equivalents. In most states, almost all small businesses are eligible for the CAP, though some states limit maximum loan sizes and eligible industries. A state's up-front payment of 3%-7% of the loan amount into a bank's CAP reserve fund supports a bank loan that is 14 to 33 times larger than that amount.

The August 2000 survey offers evidence on several aspects of CAPs performance:

- Currently, 20 states and 2 cities operate CAPs, with total lending since 1986 of more than $1.5 billion and a cumulative average loan size of $60,624.

- New CAP dollar volume in 1999 totaled $212 million, down somewhat from $246 million in 1998. However, during the first half of 2000, CAP dollar volume was on pace to exceed $263 million for the year, a projected increase of 25 percent over lending in 1999.

[1] *The Treasury Department published the first report, Capital Access Programs: A Summary of Nationwide Performance, in October, 1998, and an update of that report in November 1999.*

- Nearly 400 banks nationwide were actively originating CAP loans in June 2000.

- Nationally, cumulative CAP loan losses total $58.1 million, or 3.7% of all loan volume. Net of these losses, remaining CAP loan loss reserves amount to $64.2 million, equal to 4.1% of cumulative volume.

A few CAP programs started in 1999 and 2000, while two existing programs did not operate at all. Florida began its CAP in 1999; CAPs in Louisiana and Maryland started in late 2000, and a Hawaii CAP will begin in early 2001. No new loans were made under the Massachusetts CAP in 1999 because its appropriation was exhausted, but the program was recapitalized in late 1999 and new loans were made in 2000. Utah's program was dormant in 1999, and was terminated by the legislature in 2000. Delaware's program, not reflected in previous editions of this report, was also dormant in 2000 but is being redesigned for a new rollout next year.

Data on CAPs show that CAP loans reach some groups of borrowers not as well-served by other credit enhancement programs:

- CAPs reach minority-owned businesses and low- and moderate-income communities in substantial numbers.
- CAP lending retains and creates a significant number of jobs.
- CAPs reach types of businesses, such as building contractors and wholesale trade companies, that are not typically reached by other small business lending programs.
- In some states, CAPs are used significantly for start-up businesses and for working capital, both of which are often cited as needs unsatisfied by the private market without public support.

The survey also revealed key aspects of the largest CAPs. Active marketing to banks appears to be a central feature of large CAPs. Assuring adequate funding for states' CAPs may also increase the volume of lending; even when funding limits are not hit, states that provide insufficient appropriations may discourage both bank participation and full engagement by the state agency administering the program. Similarly, restrictions on maximum loan size or eligible industries may hinder overall program development without demonstrable advantage.

1. Introduction

The expansion of private sector small business lending under CAPs in the 20 states and 2 municipalities currently operating such programs suggests that CAPs provide an innovative way to encourage banks to make loans to a portfolio of individually risky but cumulatively profitable small business loans. CAPs provide financial backing for a bank to make slightly more risky loans than through conventional methods, while still preserving a bank's motivation to underwrite applications rigorously and avoid high losses. CAPs help banks overcome the risks of small business lending by funding a reserve account to cover losses from loans that have defaulted. The risk of the loan is partially subsidized by the state and spread over the portfolio of all CAP loans. CAP loans are not guaranteed, and therefore lenders still bear the ultimate financial risk. However, CAPs have proven helpful in encouraging banks prudently to extend smaller business loans to new customers and, for existing customers, to offer CAP loans in addition to conventional financing.

This report is an update of reports by the Department of the Treasury that summarized financial statistics on nationwide CAP lending and distilled some of the states' best practices. Many of the findings from the initial 1998 report and 1999 update still hold true. This report includes the most up-to-date information on the key CAP statistics. Policymakers and lenders would benefit from a more comprehensive study of CAP job creation impact and the reach of CAP to communities and individuals outside of the credit mainstream as well as to particular industries. This report offers a nationwide overview of CAP lending, and we hope it will stimulate further research and discussion.

1.1 How CAPs Work: Program Mechanics

In a CAP, the borrower obtains a loan and loan approval directly from the bank. There is no governmental role in approving or reviewing the application. When making a CAP loan, the bank and borrower pay an up-front insurance premium that, combined, generally ranges from 3% to 7% of the loan amount. The exact percentage is at the discretion of the individual bank, and in practice, the bank may pass most of its portion of the premium on to the borrower by financing the premium in the loan proceeds. Banks have the discretion to set interest rates on CAP loans as they see fit. In most states, all small businesses are eligible, although some states restrict maximum loan sizes and eligible industries (discussed in more detail later in this report).

The bank holds all of the CAP premiums in a single, pooled reserve account. The bank enrolls the loan by faxing a one- or two-page form to the state, providing the particulars and certifying that it meets program eligibility requirements. The state then deposits a matching amount, most often a one-to-one match, into the originating bank's CAP reserve account. In this way, each bank creates its own funded loan loss reserve to cover a loss on any of its CAP loans. The bank recovers any CAP loan losses by offsetting against the CAP reserve fund it holds. The bank itself must absorb any losses over its accumulated CAP reserve fund.

The state government provides only the up-front matching premium. A few states do provide a start-up credit line or higher initial match rates to give banks, in effect, an advance of future CAP premiums. This helps a bank in the event the bank experiences an early CAP loss before the

reserve fund has built up enough to absorb the full loss. A bank would then repay the credit line from future CAP premiums. Some states also increase their match rate for loans to targeted borrowers or areas, such as state-designated Enterprise Zones.

CAPs are designed to encourage banks to underwrite loans to a higher risk threshold than conventional lending criteria. Whereas most banks experience loan losses on their traditional loan portfolio of under 0.5% of loan principal outstanding annually, CAPs allow banks to absorb greater losses with its CAP-funded reserve. CAPs thus serve the risk category just slightly outside the scope of traditional bank lending.

1.2 How CAPs Work: Public Policy

The innovative feature of CAPs is the reserve fund that accumulates at each bank. This fund helps the bank to hold and pool its risk, thereby enabling the bank to make profitable loans to small business owners that would otherwise, on an individual basis, be viewed as too risky.

Capital Access Programs have five notable properties as public policy:

- First, CAP loans generally do not appear to "crowd out" loans that the private sector would otherwise make. Borrowers are always able to shop around to see whether another bank would make the loan without requiring the CAP premium. In choosing a CAP loan, borrowers signal that they are unable to find comparable funding elsewhere. Thus, CAPs do not supplant unsubsidized loans made by the private sector but rather make capital available to otherwise sidelined entrepreneurs.[2]

- Second, individual loan decisions in CAPs are made by those with the best information available – the private parties involved.

- Third, CAPs align the incentives of the borrower, the bank, and the state in the lending process. Private incentives work to encourage CAP loans up to the loss level provided by the reserve fund. Banks may not use the CAP reserve for any purpose other than backing CAP loans. Banks would be disinclined to set the CAP premium too high and thereby miss the opportunity to approve a greater number of profitable loans. At the same time, banks will underwrite CAP loans rigorously, because they must absorb any losses that exceed the CAP reserve account.

- Fourth, the leveraging effect of public funds is large, and the state's investment is certain at the outset. For example, if the state matches a borrower and bank contribution of 5% of the loan amount, its contribution is backing the bank to make a loan that is 20 times larger than the state investment (5% premium x 20 = 100% loan amount) . Moreover, the state does not carry any contingent liability for potential future losses on CAP loans, as it would for a loan guarantee program.

[2] *An in-depth 1998 study of the Michigan CAP by Roger Hamlin of Michigan State University estimated that only 12% of CAP loans would have occurred in the absence of the program.*

- Fifth, program administration is straightforward, according to the participating states and banks. Once the CAP is designed and enacted, the daily administration involves sending the matching premiums to each bank's reserve fund as new loans are enrolled, marketing the program to banks, and keeping accounts. In contrast, government guarantee programs may require staffing of loan review officers, recordkeeping staff, workout officers, legal staff and supervisory staff. States with CAPs reported an average administrative staffing level of 1.3 full time equivalents.

The states with CAPs as well as the most active CAP lenders report that CAPs provide a comparatively simple tool for banks to increase marginally their risk tolerance and, in so doing, to bring capital to an expanded population of viable small businesses.

2. CAP Performance

The data presented here are the results of a nationwide survey conducted by the Treasury Department during August of 2000. The survey collected CAP data through the end of calendar year 1999, as well as through June 30, 2000. The data are presented as follows:

- Cumulative totals and averages based on those totals are calculated using the most up-to-date data through June 2000. Of the 22 CAPs surveyed, 20 were able to provide these data. Cumulative figures are based on totals through 1999 in Florida and Pennsylvania.

- Data on an annual basis is presented through calendar year 1999, and is compared to 1998 data collected by the Department of Treasury in its November 1999 CAP Report.

The complete data set is presented in the Appendix.

2.1 General Financial Performance

Developments in New and Existing CAPs
This survey covered 20 states and 2 municipalities with operating CAPs in June 2000, including Florida, which launched its CAP in 1999.

- This report includes results from Delaware's CAP, enacted in 1994, that were not included in previous editions.

- Louisiana's and Maryland's CAPs began in late 2000. Hawaii's newly enacted CAP will be launched in early 2001. Results from these CAPs will be reflected in next year's report.

- In 1999, Massachusetts, which operates one of the largest CAPs, exhausted its initial 1993 appropriation of $5 million. No loans were made under the Massachusetts CAP in 1999. In September of 1999, the program was recapitalized with a state appropriation, and new CAP loans were originated in Massachusetts in 2000.

- Utah's CAP, under which no loans had been originated since 1998, was repealed by the state of Utah effective May 1, 2000, and historical data from that CAP are not reflected here.

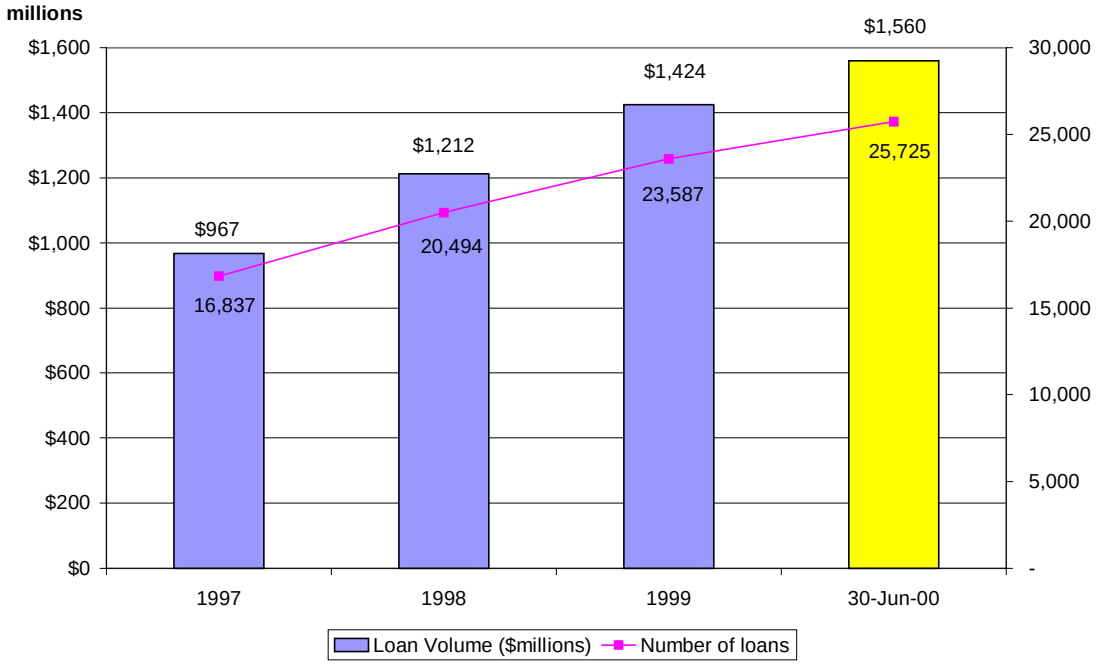
Loan Volume and Growth

CAP lending continued at a strong pace through 1999 and the first half of 2000. The figures in the Appendix present some of the survey's major findings on loan volume and growth. Figure 1 shows the rise in both total lending volume and the total number of loans, and Figure 2 shows new loan volume and new number of loans in 1997, 1998, 1999 and the first half of 2000.

- By June 30, 2000, total CAP lending volume had increased to $1.56 billion, from $1.42 billion at the end of 1999, and $1.21 billion at the end of 1998 (9.2 percent growth 1998-99).

- In 1999, $212 million in new CAP loans were originated, down somewhat (14 percent) from $246 million in 1998. A considerable portion of the decrease in CAP lending in 1999 may be attributable to the dormancy of the Massachusetts CAP in that year. Lending under the Massachusetts CAP averaged $34 million annually in 1997 and 1998. The first half of 2000 alone, however, saw nearly $132 million in new CAP volume, putting new volume for calendar year 2000 on pace to exceed $263 million (a projected 24 percent increase over 1999 lending).

Figure 1: Nationwide Cumulative Loan Volume and Cumulative Number of Loans



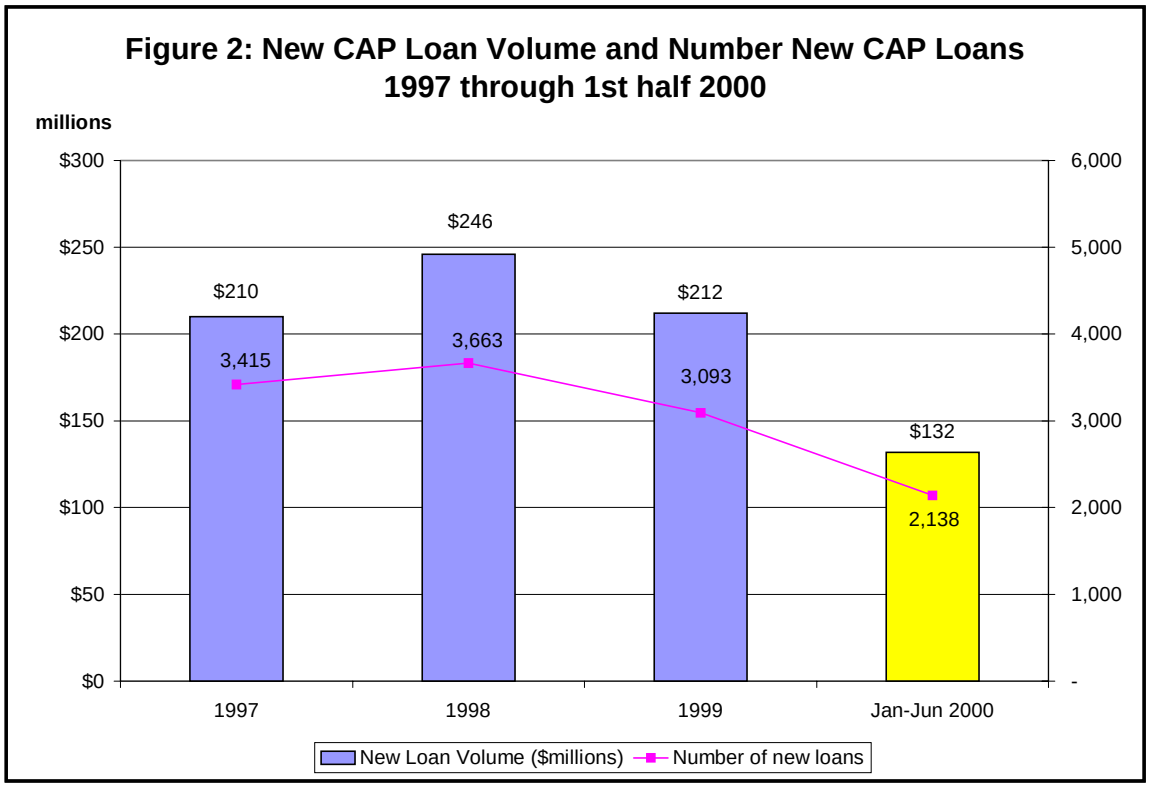
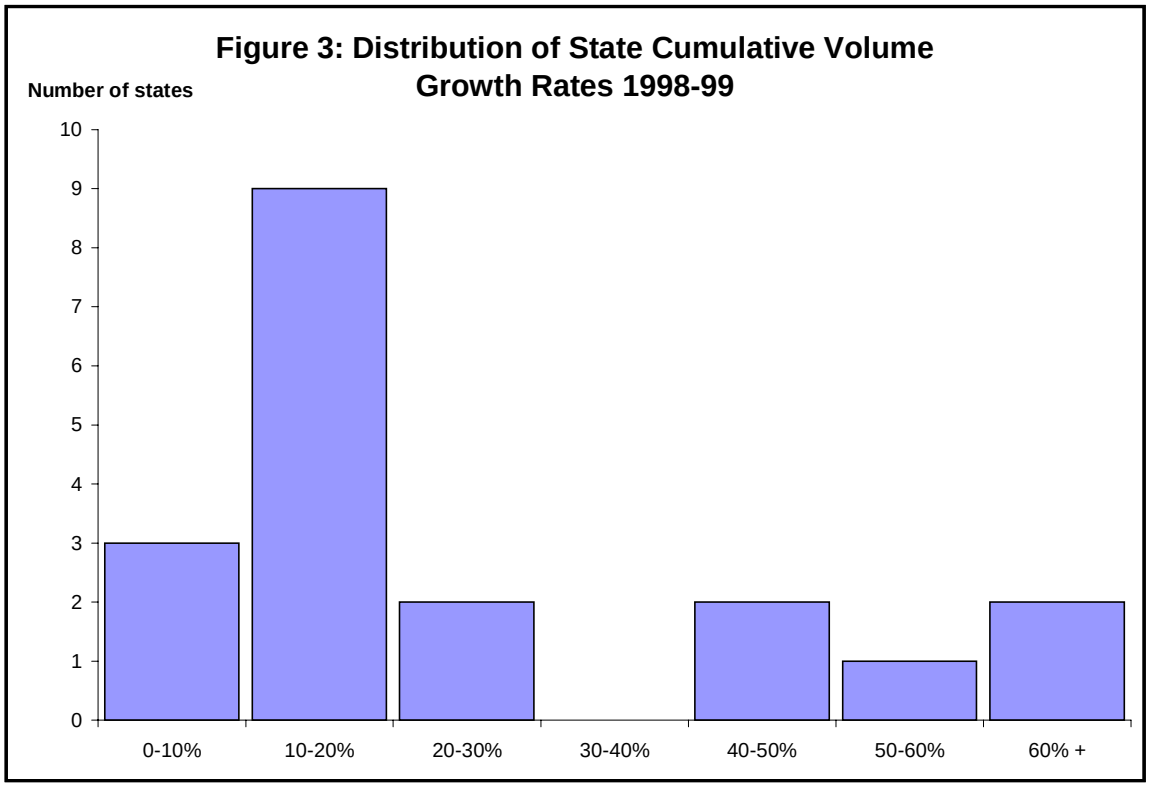


Figure 3 shows the distribution of CAP growth rates in 1999 across states.

- CAP growth rates are strong across the country. Only three of the programs surveyed grew at less than a 10 percent rate in 1999, while the growth rates in five states were in excess of 40 percent.[3] Volume in Texas grew by an astounding 365 percent, the Illinois CAP grew by 96 percent, and programs in Colorado and Minnesota achieved growth rates of 57 percent and 46 percent respectively. Nine of the 19 CAPs displayed in Figure 3 grew at a 10-20 percent rate from 1998 to 1999.

[3] *These figures exclude the Massachusetts CAP, which was dormant in 1999, the Delaware CAP, for which no 1998-99 information is available, and the Florida CAP, which started in 1999.*



Figures 4a and 4b show cumulative CAP lending in the states on share and per capita terms.

- CAP lending remains especially pronounced in three states: California, Michigan, and Massachusetts (despite its CAP's dormancy in 1999) are responsible for nearly 66% of cumulative lending volume.

- CAP lending per capita provides another measure of the relative magnitude of states' CAPs. By this measure, New Hampshire continues to operate the largest program in the country, with a cumulative CAP loan volume of $67.82 per resident. The fact that some small states – New Hampshire and Oregon in particular – have large CAPs on a per capita basis indicates much greater market penetration. [4]

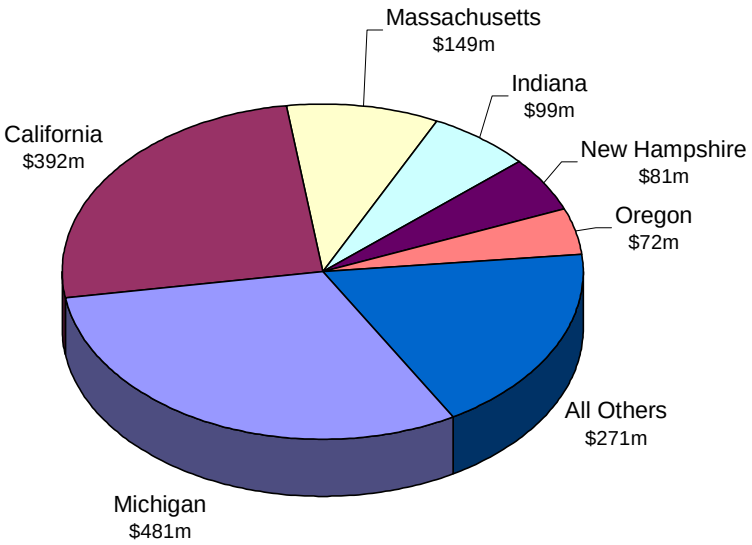
Figures 5a and 5b show 1999 CAP lending in the states on share and per capita terms.

- In 1999, California accounted for the largest annual volume with $56 million, followed by Michigan with $48 million and Texas with $35 million.

- As with cumulative lending, New Hampshire operated the largest program in 1999 measured on a per capita basis. It had a 1999 loan volume of $7.65 per resident, compared to the average CAP's 1999 loan volume of $1.28 per resident.

[4] *Akron,Ohio reports cumulative CAP lending of $43.43 per resident.*

Figure 4a: Cumulative Loan Volume by State through 06/30/00 ($millions)



Total Volume = $1.56 billion

Figure 4b: Cumulative Loan Volume per Capita through 06/30/00

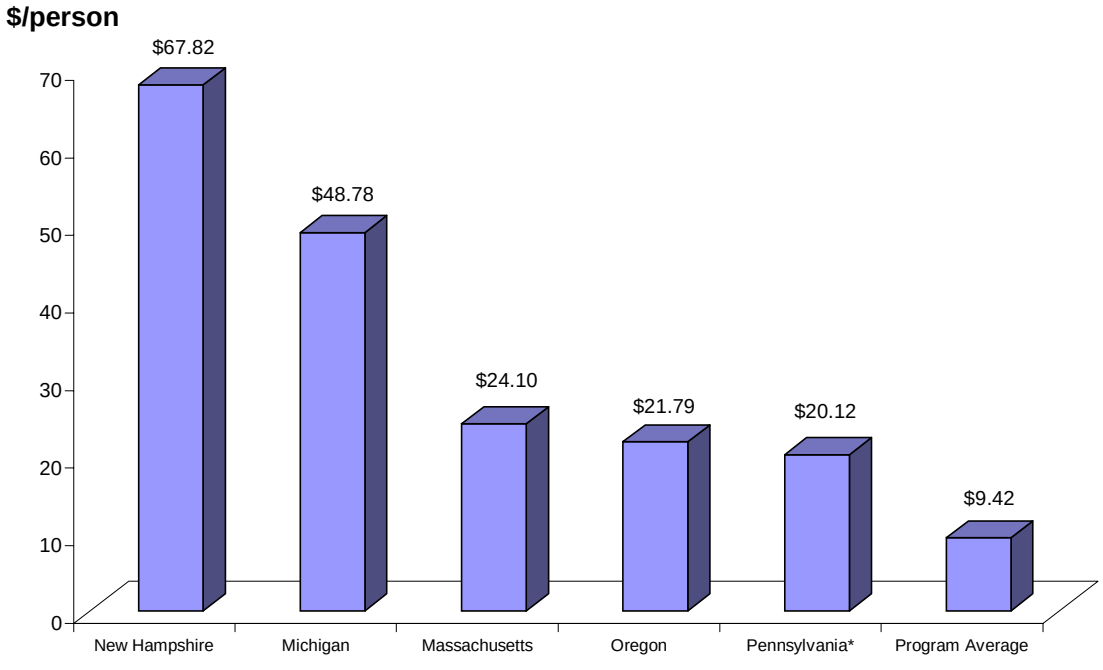
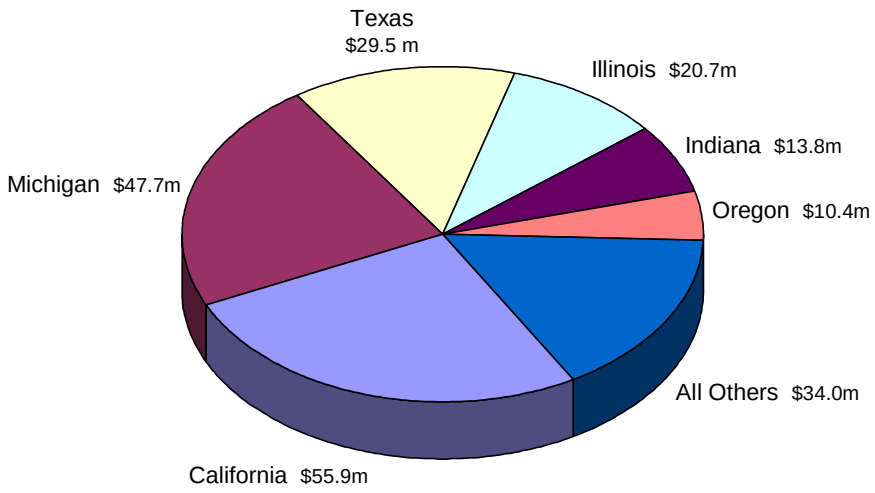
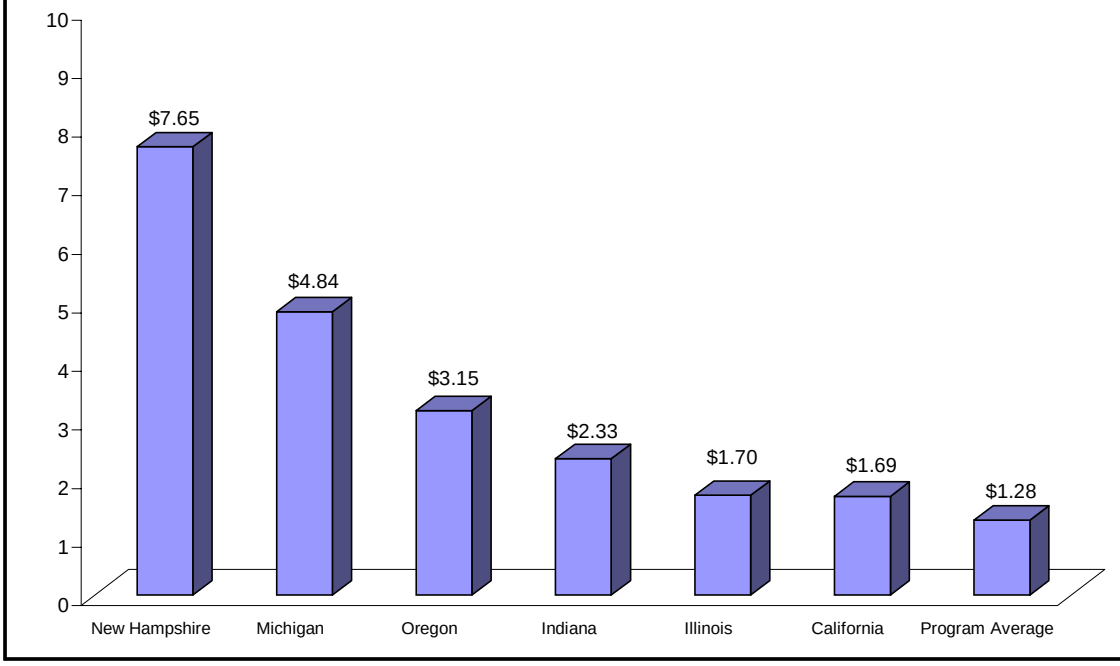


Figure 5a: Loan Volume by State 1999
($millions)



Total New Volume = $212 million

Figure 5b: Loan Volume per Capita 1999

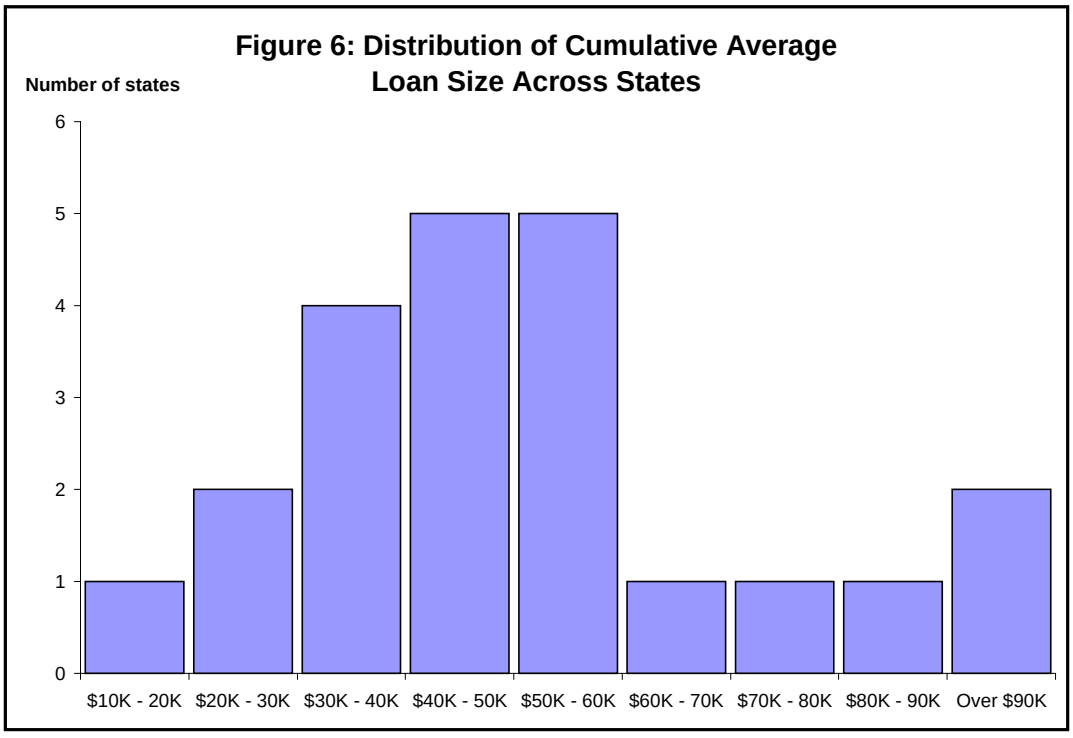


Another benchmark of CAPs' relative size is CAP lending per firm in a state. Using the 1997 Economic Census to calculate CAP lending per firm produces results nearly identical to those for the per capita measure since, at the state level, the number of businesses closely correlates with the total population. Cumulatively, New Hampshire's CAP lending per firm is the largest at $2,573 per firm, followed by Michigan at $2,482 and Massachusetts at $1,063. Looking at CAP lending in 1999 only, New Hampshire is the largest at $290.15 per firm, followed by Michigan at $246.14 per firm, and Oregon at $124.48 per firm.[5]

The collected data show no evidence that CAP demand is saturated. Michigan and California, the largest programs on a cumulative basis – those perhaps most likely to tap-out demand – continued through 1999 and mid-year 2000 to be among the leaders in new loan volume on absolute and per capita terms (see Figures 5a and 5b).

Average Loan Size

While the cumulative nationwide average size of a CAP loan is $60,624, there is considerable variance across states (see Figure 6). Banks in California and Texas originate the largest average loans, at $153,264 and $88,765 respectively.[6] Wisconsin and Vermont banks originate the smallest, at $25,566 and $17,497 respectively. However, analysis of the data for all CAPs shows no strong correlation between loan size and any simple measure of CAPs' performance, such as loan volume per capita or loan losses as a percentage of cumulative lending.[7]



[5] *CAP lending figures per firm are higher than those reported in previous editions of the report due to a change in the Census statistics used for number of firms per state.*
[6] *The eight loans extended under the Florida CAP in 1999 averaged $218,313.*
[7] *California, however, is an exception, producing both the largest average loan size and loan loss percentage,*

Financial Products

Different banks use CAPs to make different types of loans. Under CAPs, banks decide how to deploy the risk-protection afforded by the loan loss reserve. For example, some banks use CAPs to target a new customer base of small businesses. Other banks use CAPs for the unsecured portion of a financing package in which the bank will also provide some conventional secured financing.

The small business community often cites the financing of start-up businesses as an important funding need not fully satisfied by the private market. The available data appears to show that CAPs can address some of this need. Oregon reports that through 1999, 30% of its CAP loans went to start-up businesses. Similarly, Illinois and Arkansas report that in 1999-2000, 27 percent and 17 percent of CAP loans, respectively, went to start-ups. Table 1 presents statistics from six states that reported data on CAP lending to start-ups, suggesting that start-ups are a market niche suitable to the CAP product.

Table 1. Percentage of CAP Loans Made to Start-Up Businesses by State

State	Time Period	% of CAP Loans to Start-up Firms
Arkansas	cumulative	17%
Illinois	1999-2000	27%
Massachusetts	cumulative	17%
Michigan	cumulative	18%
Oregon	cumulative	30%
Texas	1999	20%

Loan Losses and Reserve Funds

In June 2000, 691 banks were enrolled in CAPs nationwide and 394 of these were actively originating CAP loans. Many of these banks have large branch networks.

Cumulative CAP loan losses nationwide totaled approximately $58.5 million through June 2000, or 3.8% of all loan volume extended. Net of these losses, banks nationwide held over $64 million in their CAP reserve funds in June 2000, equal to 4.1% of the total loan volume extended.[8] CAP reserves as a percentage of loans *currently outstanding* would, of course, be a much higher percentage, since much of the cumulative loan volume ($1.56 billion) has been repaid.[9] Adding the cumulative losses and remaining loss reserve indicates that public and private CAP contributions to bank reserve funds have totaled 7.9% of cumulative lending, with

although well within the limits of its CAP reserve fund.

[8] *Florida, Oregon and Pennsylvania were only able to report losses and reserves through December 31, 1999. Those December 1999 figures for these states are incorporated into the totals presented here.*

[9] *Data on CAP loans outstanding are unavailable for most states, and therefore CAP reserves as a percentage of loans outstanding -- the usual measure of the adequacy of a loan loss reserve -- cannot be calculated. One fairly mature program – Massachusetts – reports that banks' CAPs reserves equal nearly 10 percent of loans outstanding.*

states contributing a little over half of that amount (some states contribute more than a one-to-one match under certain circumstances – see Section 2.2 below).

The data, as well as bank behavior, suggest that current CAP reserves may be adequate to meet future losses, absent unforeseen circumstances. In some states, many CAP loans are for short maturities. Data from Illinois, for instance, indicate that over 40 percent of enrolled loans mature within 3 years. Since remaining reserves across all CAPs are 110 percent of historical losses and most programs are more than a few years old, with presumably a substantial loan volume having been repaid ("runoff"), it seems likely that the coverage available on outstanding loans is sufficient.[10] Additionally, some banks with CAP experience in one state are expanding CAP lending where new states have enacted programs. The leading lenders in Texas' relatively new CAP are also leading lenders in CAPs in California and Illinois.

State Leverage

States have varying policies with regard to how much they require banks, borrowers, and the state to contribute to the reserve fund. States typically match private contributions one-to-one (that is, dollar-for-dollar), with many states increasing their match rate for target groups or areas, as is discussed in the next section. All in all, state contributions to the reserve funds typically range from 3% to 7% of the loan amount, implying public leverage of private funding in a range from 33:1 to 14:1.

Some states have special strategies to help banks overcome a start-up dynamic in which the first few loans do not on their own generate enough of a reserve pool to cover a default. For instance, Pennsylvania, Vermont and Virginia provide an initial $50,000 line of credit to their participating banks. Other programs address this issue by increasing the public match rate for banks' initial loans. For example, Michigan provides a 150 percent match for a bank's initial $2 million in loans and then reduces the match to one-to-one.[11] Other states do not use start-up incentives at all.

One might expect to see a relationship between the size of a state's contributions to the reserve funds and the resulting size of its CAP. New Hampshire's experience supports this expectation: The average percentage of the loan contributed by New Hampshire to the loan loss reserve is one of the largest in the country, nearly 9% of total loan volume, and New Hampshire has the most far-reaching program in the nation on a per-capita basis. However, across all programs there is only a weak relationship between public contributions and the size of a program. The fact that there is not a stronger correlation suggests that state contributions are only one part of a larger

[10] *Programs with the lowest ratio of current reserves to historical losses tend to be the largest CAPs in the country. One explanation of this correlation is simply that larger CAPs tend to be older programs, so that there has been a longer time frame over which existing loans can go into default. There is a slight negative correlation between the cumulative size of a state's program on a per capita basis and its reserve-to-cumulative loss ratio. A second explanation for the correlation might be that CAPs are larger in states where banks lend more aggressively – and hence coverage ratios are lower.*

[11] *Other CAPs that report matching contributions on a bank's initial loans at a greater than one-to-one rate are Arkansas, California, Illinois, New York City, New Hampshire, North Carolina and Oklahoma.*

story in determining the relative magnitude of state programs. These factors are discussed in Section 3.

Job Creation and Retention

As stated in previous reports, the data for jobs created or retained by CAP lending should be viewed cautiously. While the field would benefit from more studies, the reported data suggest the potential impact of CAP lending. Twelve states provided data on the number of jobs created or retained through CAP lending, a significant increase from six in last year's report. Calculating the amount of CAP loan dollars per job created or retained in these six states shows substantial variation, from $30,000 per job in one state to $3,600 per job in another. These job retention and creation numbers are self-reported by the borrower and by the state, and these figures are not independently reviewed.

However, with these caveats, applying the average employment effect for the twelve reporting states across the 22 states and municipalities with operating CAPs suggests that as many as 113,000 jobs may have been created or retained as a result of CAPs. These jobs created by the CAPs are efficiently generated at very little cost to the government. Of the twelve states that reported this job creation data, the average state subsidy cost per job created/retained is $540. This is a notable decrease from the $777 six-state average reported for 1998, and suggests that the field's ability to efficiently leverage public funds through CAPs is growing.[12]

2.2 Performance in Lending to Specific Groups

Of the 19 states surveyed, eight states augment their CAP contributions for targeted groups. Table 1 shows that four states target state-designated Enterprise Zones, and four target on the basis of other geographical areas. Four states augment their contributions for minority-owned businesses, two for female-owned businesses and one for disabled-owned businesses.

Most states target by increasing their matching contribution to a bank's reserve fund, usually by 1.5 or 2 times their ordinary match. For example, Illinois adds another 50% to its loan loss reserve contribution for loans to minority-owned, women-owned and disabled-owned businesses. For loans made to borrowers in federal Enterprise Zones and Enterprise Communities, the state doubles its ordinary contribution. For example, if a lender and borrower in an Enterprise Zone each contribute 2% to the loan loss reserve account, Illinois will contribute 8% instead of its usual 4%. Connecticut targets by providing a 30% supplemental loan guarantee for "adversely affected" urban areas. This "first-loss" guarantee reduces the lender's exposure and creates an additional incentive for banks to invest in the targeted communities.[13]

While data are limited, some states reported data showing that – whether the state targets specific groups or not – significant percentages of CAP loans are reaching low- and moderate-income

[12] *In addition to a lower average per-job subsidy among the six new states that supplied data on job creation/retention through June 2000, each state that reported job data for 1998 saw a decrease in per-job subsidy in 1999-2000.*

[13] *Arkansas provides a similar supplemental guarantee to borrowers located in targeted communities.*

areas as well as minority and female borrowers. In addition, CAPs appear to reach a broad spectrum of industries.

Table 2: Targeted State Programs

	State-Designated Zones	Other Geographic Zones	Minority Owned Businesses	Female Owned Businesses	Disabled Owned Businesses	Industry Targeting
Arkansas		✓				
California	✓	✓				
Colorado		✓	✓	✓		✓
Connecticut		✓				
Illinois	✓		✓	✓	✓	
Indiana			✓			✓
Pennsylvania			✓			
Texas	✓					✓

1) *Low- and Moderate-Income Areas / Geographic Targeting.* Connecticut reports that since the inception of its CAP, 174 loans totaling $15.7 million have been made to borrowers in targeted urban communities – 56 percent of cumulative CAP lending in that state. Wells Fargo Bank, which continues to originate 72% of all CAP loan volume in California, reported in 1997 that 28% of its CAP loans in that state went to businesses in census tracts with median incomes at the low to moderate level. In Connecticut, the average loan size for borrowers located in low and moderate income areas – $90,200 – is 18% larger than the state average, while Wells Fargo loans in low- and moderate-income California census tracts were 7% larger than the state average.

2) *Minority-Owned Businesses.* Nine CAPs reported data on loans extended to racial and ethnic minority borrowers. Table 3 presents statistics on average loan size to minority-owned businesses and the percentage of CAP loans to minority borrowers in these nine programs.[14]

[14] *Pennsylvania doubles its match for CAP loans to minority-owned businesses, but was not able to make available data on lending to these businesses.*

Table 3. CAP Lending to Minority-Owned Businesses

State	statewide % MOB	% CAP Loans to MOB	Average Loan Size – all bus.	Average Loan Size – MOB
CAPs that Increase Match for Minority-Owned Businesses				
Colorado	7%	45%	$45,178	$48,336
Illinois	9%	21%	$56,982	$82,732
Indiana	4%	3%	$47,011	$34,908
CAPs that Do Not Increase Match for Minority Borrowers				
Arkansas	5%	19%	$39,415	$20,574
Delaware	8%	28%	$45,199	$31,587
New York City	21%	22%	$54,162	$87,042
Texas	19%	38%	$88,765	$55,907
Vermont	1%	1%	$17,497	$31,667
Wisconsin	3%	29%	$25,566	$26,288
9-CAP Average	**16%**	**17%**	**$48,907**	**$54,921**

Across the nine programs, the average CAP loan extended to a minority borrower exceeds the average loan size for all types of borrowers by over $6,000. In a number of these programs, CAPs appear to represent an effective way to reach minority borrowers. In six of the nine states, for instance, the percentage of all CAP loans extended to minority borrowers far exceeds the percentage of firms owned by minorities in those states.[15] This is the case in Arkansas, Delaware, Texas and Wisconsin despite the fact that these states do not target minority-owned businesses by increasing the contribution match rate for these borrowers. This indicates that banks may find CAP loans to be especially effective products for reaching minority borrowers with limited or unconventional credit histories.

3) *Female-Owned Businesses.* Seven CAPs reported data on lending to women-owned businesses. Table 4 presents statistics on average loan size to women-owned businesses and the percentage of CAP loans to women borrowers in these six programs.

[15] *The average percentage of loans to minorities across all nine CAPs is lower than might be expected looking at each individual CAP because Indiana's CAP has generated the greatest number of loans – over 2,000 – in its eight years of existence.*

Table 4. CAP Lending to Women-Owned Businesses

State	statewide % WOB	% CAP Loans to WOB	Average Loan Size – all bus.	Average Loan Size – WOB
CAPs that Increase Match for Women-Owned Businesses				
Colorado	37%	8%	$45,178	$36,420
Illinois	34%	23%	$56,982	$48,046
CAPs that Do Not Increase Match for Women-Owned Businesses				
Delaware	35%	29%	$45,199	$31,188
New York City	35%	22%	$54,162	$81,194
Texas	33%	19%	$88,765	$51,483
Vermont	36%	17%	$17,497	$20,895
Wisconsin	33%	35%	$25,566	$22,801
7-CAP Average	**35%**	**21%**	**$45,747**	**$39,081**

While approximately one out of every three firms in these states in 1992 was woman-owned, about one out of every five CAP loans through June 2000 was extended to a woman-owned business. Average loan sizes for women-owned businesses were smaller in five of the seven states, and about 86 percent the size of the average loan for all businesses across all six states.

4) *Lending by Industry.* Seven states provided information on CAP lending by borrower industry, and the data show that CAP loans are able to cover a broad spectrum of business types. The three top industries served by CAPs were retail trade, services and manufacturing. CAP loans also reached construction, wholesale and transportation firms with significant frequency, industries that are often not well served by other types of credit enhancement programs. The available data also indicate that CAP lenders adapt the program to the needs of particular states. For example, six of the seven states reported that agribusiness loans represented only 1-5% of total CAP loans extended, but in Arkansas agribusiness lending comprises 37% of all CAP loans.

3. Key Program Features of Large CAPs

The varied experiences among states in the growth of CAPs suggest that a number of factors operate together to contribute to overall CAP performance. Using the data in this report, an informal linear regression analysis attempted to measure the independent contribution of several factors – including average loan size, state leverage, start-up incentives for banks, and age of the program – to cumulative loan volume per capita. It found, rather unsurprisingly, that the number of years a CAP has been in operation was by far the most significant predictor of cumulative performance. However, the August 2000 survey suggests that other, more qualitative elements are potentially quite important to the growth of CAPs:

1) Active marketing of the CAP

Many of the largest programs report that regular marketing is extremely important, particularly in the initial stages of the program. Marketing to banks through meetings

and phone calls appears to be most important, while marketing to borrowers is less important in developing a high-volume CAP. Beyond informing banks of the CAP's existence, this type of marketing provides an opportunity to answer questions about the program.

Officials in Illinois, New Hampshire and New York City felt that marketing directly to banks was especially effective. California and Oregon supplement direct marketing to banks by working closely with bankers' associations in their states to increase their members' participation. A number of states hold seminars and participate in lender and economic development conferences. Illinois noted that it visited the centralized underwriting centers for multi-state banks in order to work directly with lending decision makers. Many states also noted that they use brochures and mail campaigns to market the CAP to banks, although some felt that this strategy was less effective.[16]

2) Adequate state appropriations for the CAP

Eight CAPs report that either one-time or annual appropriations effectively limit the amount of loans that can be made under the program.[17] In some states, the limit is far from being reached. Texas, for instance, received a one-time appropriation in 1997 of $7 million, and had only expended $910,000 by the end of 1999. In Massachusetts, however, the state exhausted its one-time 1993 appropriation of $5 million in early 1999, and the program was suspended for a year. Even if a state is not hitting its funding limit, low funding may discourage banks from joining the program, given lenders' need to originate a volume of loans sufficient to build an adequate loss reserve.[18] Interestingly, some of the largest programs in the country, including California, Michigan and New Hampshire, reported that their programs faced no funding limits.

States use a variety of funding sources for their CAPs. Pennsylvania generates the funds for its CAP contributions from bond financing programs, while Illinois' CAP program is supported by its economic development loan program fund. California charges a 1% Small Business Assistance Fund fee to large companies obtaining environmental revenue bond financing through the state's bond issuing conduit. Michigan's funds come from revenues received by the state from casinos operated by Native American tribes.

[16] *Michigan, which has operates its CAP since 1986 , no longer performs any direct marketing of the CAP, preferring to rely on lenders to market the program to borrowers.*

[17] *Under Vermont's CAP authorizing statute, the state's exposure under the program is limited to $2 million. To date, the state has only contributed a cumulative $300,000 to loan loss reserves.*

[18] *Based on the Minnesota CAP's average loan size, and the state's average contribution of 8 percent of the loan amount, the $340,000 that remains from its initial $1 million appropriation would support only 121 more loans.*

APPENDICES

CAP Data Summary

Data collected as of August 2000
Data based on self-reporting by states

State	State pop'n	Total # Firms (1997)	Cumulative Volume ($) 06/30/00	Cumulative Volume ($) 12/31/99	Cumulative Volume ($) 12/31/98	New Vol. ($) 1/1/00-6/30/00	New Vol. ($) 1999	Cum. # loans 06/30/00	Cum. # loans 12/31/99	Cum. # loans 12/31/98	Avg. Loan Size ($)	Cum. Vol. ($) Per capita	Cum. Vol. ($) Per firm
Arkansas	2,551,373	52,310	$10,799,809	$9,524,306	$8,128,718	1,275,503	1,395,588	274	251	205	39,415	4.23	206.46
California	33,145,121	635,570	392,356,908	364,139,726	308,276,553	28,217,182	55,863,173	2560	2401	2048	153,264	11.84	617.33
Colorado	4,056,133	108,833	17,031,923	14,967,201	9,549,412	2,064,722	5,417,789	377	321	250	45,178	4.20	156.50
Connecticut	3,282,031	79,183	27,900,477	26,840,802	25,426,052	1,059,675	1,414,750	365	353	332	76,440	8.50	352.35
Delaware	753,538	18,447	3,525,553	3,525,553	n/a	n/a	n/a	78	78	n/a	45,199	4.68	191.12
Florida	14,908,230	346,463	*1,746,500*	1,746,500	--	n/a	1,746,500	14	8	--	218,313	0.12	5.04
Illinois	12,128,370	251,387	55,614,160	42,099,180	21,443,969	13,514,980	20,655,211	976	744	415	56,982	4.59	221.23
Indiana	5,942,901	117,270	98,911,749	91,369,770	77,544,687	7,541,979	13,825,083	2104	1948	1693	47,011	16.64	843.45
Massachusetts	6,175,169	140,026	148,844,257	135,119,329	135,119,329	13,724,928	--	2462	2284	2284	60,457	24.10	1062.98
Michigan	9,863,775	193,826	481,125,371	447,430,717	399,721,976	33,694,654	47,708,741	8684	8096	7251	55,404	48.78	2482.25
Minnesota	4,775,508	111,366	9,043,279	7,946,464	5,437,666	1,096,815	2,508,798	238	226	199	37,997	1.89	81.20
New Hampshire	1,201,134	31,664	81,465,016	77,005,603	67,818,168	4,459,413	9,187,435	2244	2096	1794	36,303	67.82	2572.80
New York City	7,447,047	208,911	18,685,812	17,568,913	16,368,913	1,116,899	1,200,000	345	339	308	54,162	2.51	89.44
North Carolina	7,650,789	158,387	14,853,782	14,057,235	11,112,535	796,547	2,944,700	302	282	220	49,185	1.94	93.78
Akron, OH	330,068	14,764	14,334,981	13,906,881	13,806,881	428,100	100,000	265	262	261	54,094	43.43	970.94
Oklahoma	3,358,044	70,333	27,033,293	25,650,942	22,951,353	1,382,351	2,699,589	968	893	760	27,927	8.05	384.36
Oregon	3,316,154	83,784	72,250,470	66,727,692	56,297,985	5,522,778	10,429,707	1694	1605	1479	42,651	21.79	862.34
Pennsylvania	11,994,016	236,759	*8,385,347*	8,385,347	6,852,642	n/a	1,532,705	*210*	210	168	39,930	20.12	35.42
Texas	20,044,141	363,791	49,886,123	37,576,062	8,081,697	12,310,061	29,494,365	562	365	76	88,765	2.49	137.13
Vermont	593,740	18,904	8,048,538	7,640,552	6,673,095	407,986	967,457	460	436	366	17,497	13.56	425.76
Virginia	6,872,912	136,268	7,456,851	5,731,540	3,981,982	1,725,311	1,749,558	142	104	59	52,513	1.08	54.72
Wisconsin	5,250,446	33,155	10,251,823	8,961,777	7,819,172	1,290,046	1,142,605	401	363	326	25,566	1.95	309.21
Totals	$165,640,640	$3,411,401	$1,559,552,022	$1,427,922,092	$1,212,412,785	$131,629,930	$211,983,754	25,725	23,665	20,494	$60,624		
Average			$70,888,728	$67,996,290	$60,620,639	$6,927,891	$10,094,464	1169	1127	976		$9.42	$457.16

n/a = not available
Italicized figures indicate that state only supplied data through 12/31/99

State	Existing Reserves 06/30/00	Cumulative Losses 06/30/00	Total Reserves Contribution	Total Public Contribution	1999 Public Contribution	Total Public Contribution as % Volume	Participating Banks 06/30/00	Participating Banks 12/31/98	New Banks 1999-2000	Active Banks 06/30/00
Arkansas	455,926	245,949	701,875	399,942	50,231	3.7%	10	10	0	4
California	12,274,170	26,911,291	39,185,461	16,858,115	2,225,413	4.3%	47	45	2	12
Colorado	564,939	337,343	902,282	n/a	n/a	n/a	12	12	0	9
Connecticut	2,821,198	1,293,712	4,114,910	2,784,673	1,030,883	10.0%	29	30	-1	9
Delaware	105,695	115,272	220,967	n/a	n/a	n/a	6	6	0	2
Florida	n/a	n/a	n/a	718,250	n/a	41.1%	33	0	33	0
Illinois	4,337,203	522,703	4,859,906	2,448,178	880,503	4.4%	55	51	4	25
Indiana	7,499,367	3,595,771	11,095,138	4,170,822	438,413	4.2%	31	10	21	32
Massachusetts	3,591,570	5,064,392	8,655,962	4,738,345	n/a	3.2%	100	100	0	65
Michigan	15,095,000	9,761,195	24,856,195	18,385,000	1,982,765	3.8%	77	69	8	57
Minnesota	1,193,676	306,419	1,500,095	656,915	92704	7.3%	34	34	0	34
New Hampshire	7,079,444	3,174,345	10,253,789	7,055,457	662,267	8.7%	39	37	2	26
New York City	1,135,996	1,096,890	2,232,886	1,137,161	43,875	6.1%	11	11	0	4
North Carolina	1,111,798	289,157	1,400,955	735,102	170,031	4.9%	20	26	-6	9
Akron, OH	287,070	500,210	787,280	n/a	n/a	n/a	8	8	0	3
Oklahoma	627,516	1,197,215	1,824,731	1,075,877	86,994	4.0%	72	74	-2	28
Oregon	*1,901,325*	*2,841,549*	*4,742,874*	*2,637,458*	220,860	*4.0%*	25	29	-4	18
Pennsylvania	*353,164*	*128,863*	*482,028*	n/a	n/a	n/a	6	6	0	4
Texas	2,449,096	421,781	2,870,877	1,262,012	562,068	2.5%	14	11	3	9
Vermont	988,475	372,130	1,360,605	245,991	29,198	3.1%	25	24	1	22
Virginia	292,177	148,501	440,678	220,339	137,863	3.0%	9	6	3	7
Wisconsin	96,054	291,564	387,618	362,549	48,548	3.5%	28	21	7	15
Totals	64,260,859	58,616,252	122,877,112	65,892,186	8,662,617		691	620	71	394
Average	3,060,041	2,791,250	5,851,291	3,468,010	541,414	4.3%	33	30	3	20

n/a = not available
Italicized figures indicate that state only supplied data through 12/31/99

Capital Access Program State Laws

State	State Law	Date Enacted
Arkansas	Arkansas Statutes Annotated 15-5-1101 et seq.	1993
California	California Health & Safety Code § 44559.1 et seq.	1994
Colorado*	Colorado Revised Statutes 29-4-710.5 et seq.	1993
Connecticut*	Connecticut General Statutes § 8-167 et seq.	1993
Delaware*	Delaware Code Unannotated 49 § 5005 et seq.	1993
Florida*	Florida Statutes 19-288.901 et seq.	1996
Hawaii	Hawaii Revised Statutes 13 chap. 211D	2000
Illinois*	30 Illinois Compiled Statutes 750/9 et seq.	1997
Indiana	Indiana Code 4-4-26	1992
Louisiana*	Louisiana Revised Statutes 51.2311 et seq.	1998
Maryland	Annotated Code of Maryland Art. 83B 4-207	2000
Massachusetts	General Laws of Massachusetts chap. 23A, § 57	1993
Michigan*	Michigan Statutes Annotated 3.541 (201) et seq.	1986
Minnesota	Minnesota Statutes chapter 116J.876	1989
New Hampshire	New Hampshire Revised Statutes chap. 162-A:12	1992
New York City*	New York State Consolidated Laws chap. 15	1993
North Carolina	North Carolina 1993 Session Laws, chap. 769, § 28.1 (a7)	1994
Ohio (Akron)*	Ohio Revised Code 1.166	1995
Oklahoma*	74 Oklahoma Statutes 5085.2 et seq.	1992
Oregon	Oregon Revised Statutes 285B.126	1989
Pennsylvania*	73 Pennsylvania Statutes 376.2	1994
Texas	Texas Government Code chap. 481, subchap. BB, § 481.401 et seq.	1997
Vermont*	Vermont Statutes Title 10, chap. 12, § 279	1993
Virginia*	Virginia Code 9-228.5 et seq.	1996
Wisconsin*	Wisconsin Statutes chap. 560.03	1992

* No specific CAP legislation; generic economic development statute used.