



Comptroller of the Currency  
Administrator of National Banks

US Department of the Treasury

# Community Developments *Investments*

June 2011



## Renewing Economic Growth

### Small Business Jobs Act of 2010

# A Look Inside ...

Barry Wides, Deputy Comptroller, Community Affairs, Office of the Comptroller of the Currency

Small businesses propel the U.S. economy, creating more than 60 percent of new jobs on average. These businesses are a powerful growth engine, but if the engine falters, the overall economy downshifts. When small businesses suffer, the U.S. economy suffers.

Over the past three years, the deepest recession since the Great Depression has caused financial stress for many people in the United States, including small business owners. (See sidebar titled “The Recession’s Impact on Business Loans,” page 3.) Economic circumstances forced many business owners to lay off workers, reduce inventory, and sell assets. Some owners had to close their businesses. Weakened small businesses have contributed to a stubbornly high unemployment rate, despite the U.S. economy’s positive growth rates in the past seven quarters.

Keenly aware of the recession’s effects on small businesses, the 111th



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Small business owner Elsa Gloria Cantu runs Gloria’s Daycare in Laredo, Texas.

Congress passed and the President signed into law the Small Business Jobs Act of 2010 (SBJ Act). The legislation’s goal is to provide a new source of capital for eligible lenders to finance small businesses and generate new jobs.

The small business sector operates on three levels: federal, state, and international. The SBJ Act targets all three. This issue of *Community Developments Investments* explores three main features of the SBJ Act, describing the programs and provisions and explaining their requirements.

The SBJ Act’s flagship program, the Small Business Lending Fund, functions at the federal level. The legislation dedicates \$30 billion to provide Tier 1 capital to participating

lenders. The fund allows the U.S. Department of the Treasury to purchase preferred stock and other debt instruments from financial institutions that have \$10 billion or less in assets, enhancing their capital and making it easier for them to extend new loans. (See article titled “\$30 Billion Fund Targets Small Business Lending,” page 4.)

On the state level, the SBJ Act has created the State Small Business Credit Initiative. This initiative provides \$1.5 billion in federal funds to states to support their Capital Access Programs and other state credit-support programs. These programs are expected to generate \$10 in new small business loans for every \$1 of federal funds employed. (See article titled “States Get \$1.5

## Community Developments

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This and previous editions are available at  
[www.occ.gov/cdd/resource.htm](http://www.occ.gov/cdd/resource.htm).

### On the cover:

Bernard McGraw in his San Antonio, Texas, restaurant,  
Bernard’s Creole Kitchen.

Cover photo by Lance Cheung Media



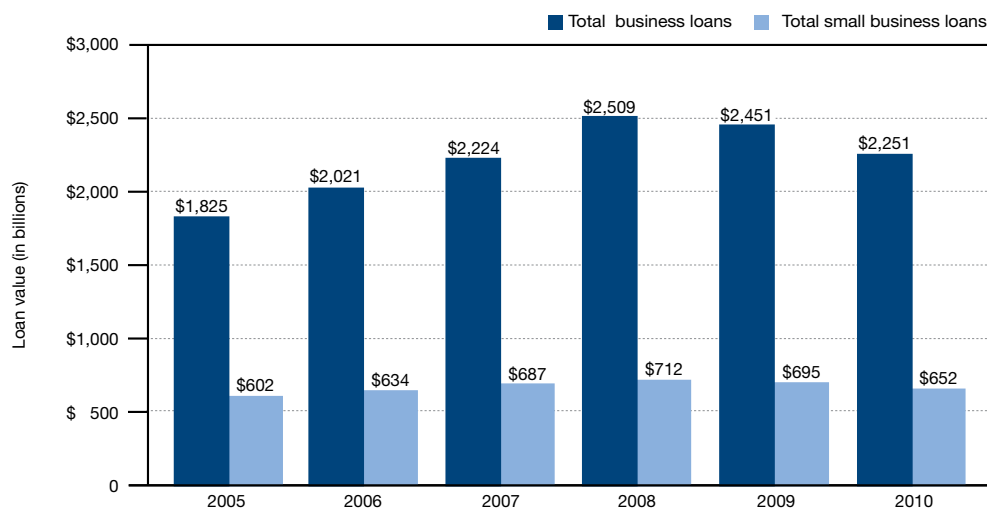
## The Recession's Impact on Business Loans

The recent recession stalled small businesses in the United States. Lending to businesses—large and small—decreased from 2008 to 2010. During this time, total business loans declined by 10.3 percent and small business loans declined by 8.3 percent, according to the U.S. Small Business Administration.

Both demand and supply sides played a role in the credit contraction. Faced with deteriorating credit and worsening economic conditions, lenders preserved capital and tightened underwriting standards. Small business borrowers, driven by lower demand for their products and services, downsized and delayed plans for expansion.

The Small Business Jobs Act of 2010 seeks to reverse these trends in small business lending by boosting capital for certain lenders and expanding small business loan guarantees.

Figure 1: Total Business and Small Business Loans in 2005–2010



Source: *Small Business Lending in the United States, 2009-2010*, ([www.sba.gov/sites/default/files/files/sbl\\_10study.pdf](http://www.sba.gov/sites/default/files/files/sbl_10study.pdf)), Office of Advocacy, U.S. Small Business Administration, February 2011, p. 4.

Billion to Support Small Businesses,” page 9.)

At the international level, exports are crucial to economic growth and employment in our increasingly global economy. The SBJ Act expands on the President’s National Export Initiative by providing significant resources to small business export promotion. (See article titled “Promoting Small Business Job Growth Through Exports,” page 13.)

This edition of *Community Developments Investments* highlights other innovative government programs, including the U.S. Small Business Administration’s Advantage programs and the White House’s

Startup America initiative, designed to promote mission-focused and entrepreneurial small businesses. For more information on SBA Advantage programs, see article titled “SBA’s ‘Advantage’ Loans Boost Underserved Communities,” page 7. For more information on the Startup America initiative, visit [www.sba.gov/startupamerica](http://www.sba.gov/startupamerica).

If you are a financial institution looking for ways to support your local small business community, this edition of *Community Developments Investments* is a good introduction to how the SBJ Act can help you reach your goals. For more information, see the OCC resource directories at

[www.occ.gov/topics/community-affairs/resource-directories/index-resource-directories.html](http://www.occ.gov/topics/community-affairs/resource-directories/index-resource-directories.html) and other related publications on the OCC’s Community Affairs home page at [www.occ.gov/topics/community-affairs/index-community-affairs.html](http://www.occ.gov/topics/community-affairs/index-community-affairs.html).

# \$30 Billion Fund Targets Small Business Lending

*Ammar Askari, Community Development Expert, Office of the Comptroller of the Currency*

The \$30 billion Small Business Lending Fund (SBLF) is the flagship program of the Small Business Jobs Act of 2010 (SBJ Act). The SBLF supports community banks and small businesses. It provides Tier 1 capital by authorizing the U.S. Department of the Treasury to buy preferred stock and other debt instruments from eligible financial institutions. The Treasury Department's capital investment is structured to reduce participants' borrowing costs to rates as low as 1 percent as the participants generate more small business loans.

## *What Qualifies as Small Business Lending?*

Under the SBLF, qualified lending includes commercial and industrial loans; loans secured by owner-occupied nonfarm, nonresidential real estate; loans to finance agricultural production and other loans to farmers; and loans secured by farmland.

The key conditions of the program are as follows:

- The original principal and commitments amount must be \$10 million or less.
- The loan is not for a business with more than \$50 million in revenues.
- The calculation of qualified small business loans excludes any guaranteed portions of government loans—both for the purpose of calculating a bank's baseline as well as its ongoing quarterly lending. Because this adjustment



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**Cathy Bochat (left) stands in front of the motorcycle school she operates in San Antonio, Texas.**

is proportional for the calculation of a bank's baseline and its ongoing quarterly lending, the adjustment does not affect banks that maintain a similar percentage of government-guaranteed lending over time. Under this condition, a bank's unguaranteed portion of a Small Business Administration's 504 loans, for example, would count as a qualified small business investment.

- A financial institution that receives capital from the SBLF must supplement its call report with a report that identifies qualified small business lending. For holding companies, small business lending is measured on the basis of combined small business lending reported in subsidiaries' call reports.

## *What Other Conditions Apply?*

Participating institutions must certify their compliance with federal regulations regarding loan applicants' identity verification and other similar assurances. The regulatory agencies for banks and thrifts issued general underwriting guidelines that are consistent with safety and soundness principles. The underwriting should reflect all relevant credit factors, including:

- Capacity of the income from the business to service the debt.
- Value and quality of the collateral.
- Overall creditworthiness of the borrower.

- Level of equity invested in the business.
- Any secondary sources of repayment.
- Any additional collateral or credit enhancements.

These guidelines are in the Underwriting Standards for Small Business Loans originated under the SBLF program and can be accessed on the Office of the Comptroller of the Currency's Web site at [www.occ.gov/news-issuances/bulletins/2010/bulletin-2010-45b.pdf](http://www.occ.gov/news-issuances/bulletins/2010/bulletin-2010-45b.pdf).

### ***How Does the SBLF Stimulate Small Business Lending?***

According to the SBLF terms, participating institutions agree to pay a 5 percent dividend at the start of the capital investment and to repay the whole amount within 10 years. An institution can repay at any time without penalty. Upon funding and for the following nine calendar quarters, the dividend is adjusted on the basis of the institution's qualified small business lending.

The dividend is adjusted according to the change in the financial institution's small business lending from a baseline value. This baseline value is the average amount of small business lending (adjusted for related charge offs and gains) for the four full quarters before September 27, 2010, the date of the SBJ Act's signing.

The rate adjusts according to the following guidelines:

- If the amount of small business lending has increased by less than 2.5 percent, the dividend or interest rate is 5 percent.
- If the amount of small business lending has increased by more than 2.5 percent, but less than 5 percent, the dividend or interest rate is 4 percent.
- If the amount of small business lending has increased by more than 5 percent, but less than 7.5 percent, the dividend or interest rate is 3 percent.
- If the amount of small business lending has increased by more than 7.5 percent, but less than 10 percent, the dividend or interest rate is 2 percent.
- If the amount of small business lending has increased by 10 percent or more, the dividend or interest rate is 1 percent.

After the ninth quarter, the rates mentioned above apply through the end of the first 4½ years if the lending amount remains higher than the baseline value. If the lending amount remains the same or decreases from the baseline value, the rate is 7 percent until the expiration of the 4½-year period. In either scenario, the rate increases to 9 percent after the initial 4½-year period.

Rate adjustments occur in the calendar quarter after the publication of call report data and are payable at the start of the subsequent quarter.

One important caveat: The financial institution has to grow its small business lending portfolio by at least the amount of capital provided to take advantage of the discounted investment rate on the whole investment amount. If the increase in small business lending is less than the amount invested by the Treasury Department, then the discounted rate applies only to the amount of the increase in small business lending.

### **For Best Interest Rate, New Lending Must Equal or Surpass Treasury Investment**

Suppose Bank A has \$200 million in "risk-weighted" assets and \$20 million (or 10 percent of assets) in its small business lending portfolio. Bank A has less than \$1 billion in assets, so it qualifies for the 5 percent (or \$10 million) in new capital under this program.

If, as a result of this program, Bank A increases its small business lending from \$20 million to \$22 million (an increase of 10 percent), then, at first glance, it seems the bank should qualify for the 1 percent dividend rate. But because the increase in small business lending (\$2

million) is less than the \$10 million in new capital, Bank A would qualify for the 1 percent dividend rate only on the \$2 million increase in small business lending and it will have to pay a 5 percent dividend rate on the remaining capital balance of \$8 million.

Conversely, if Bank B has the same level of assets, but has \$100 million in its small business portfolio, and it succeeds in realizing an increase of 10 percent (\$10 million) as a result of this program, then the entire \$10 million in borrowed capital would be eligible for the 1 percent dividend rate.

## Community Development Lenders Can Tap Small Business Loan Fund

The Small Business Jobs Act of 2010 (SBJ Act) allows Community Development Loan Funds (CDLF) to access the U.S. Department of the Treasury's Small Business Lending Fund.

CDLFs are a type of Community Development Financial Institution (CDFI). CDLFs are unregulated, non-depository institutions that provide flexible credit to underserved communities and borrowers unable to secure credit through traditional lenders. Typically, CDLFs also provide technical assistance and other services that improve borrowers' creditworthiness.

The SBJ Act requires that eligible CDLFs are tax-exempt, have at least three years of operating experience, have clean audited financial statements for the three most recent fiscal years, have total assets of \$10 billion at most, and are certified by the CDFI Fund.

The Treasury Department released terms and guidelines for CDLFs in May 2011. These terms are available at [www.treasury.gov/resource-center/](http://www.treasury.gov/resource-center/)

[sb-programs/Pages/Overview-for-CDLFs.aspx](#). The application deadline was June 22, 2011. CDLFs can receive investments of up to 5 percent of their total assets as reported in their audited financial statements for calendar year 2009. The funding is provided by the Treasury Department by purchasing equity equivalent (EQ2) securities from each participating CDLF. Any EQ2 issued to the CDLF carries an interest rate of 2 percent for the first eight years and 9 percent thereafter. In addition, CDLFs must, at a minimum, meet the following financial requirements, as listed in the fact sheet:

- Average net income for the past three years must be positive.
- Cash and cash equivalents should be greater than or equal to operating expenses for each of the four most recent quarters.
- Year-end cash and cash equivalents are equal to or greater than 25 percent of annual operating expenses for at least one of the two most recent fiscal years.

- Net assets plus EQ2 as a percentage of total assets must be at least 20 percent.
- The ratio of loan loss reserves to loans and leases 90 days or more delinquent should be at least 30 percent.
- The ratio of loans and leases 90 or more days delinquent to total equity plus loan loss reserves should be less than 40 percent.
- At least 10 percent of total loans must be Qualified CDLF Small Business Lending (as defined in the SBLF Initial Call Report for Community Development Loan Funds).

Banks may want to consider the recipients of CDLF funds as potential partners in providing small business financing in their communities. Many CDLFs extend credit and financial counseling to borrowers and often make small business referrals to other bank partners.

### *How Can Participating Institutions Maximize Small Business Lending?*

There are several programs designed to enhance a bank's capacity to extend credit to small businesses. For example, a bank may partner with a Community Development Financial Institution (CDFI) to promote its small business lending. CDFIs typically provide credit and financial counseling in low- and moderate-income communities. They serve as primary sources of funding for many small businesses

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### **CDFIs typically provide credit and financial counseling in low- and moderate-income communities.**

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in these communities. In addition to expanding their small business lending opportunities through these partnerships, banks may earn positive consideration under the Community Reinvestment Act for initiatives with CDFIs. (See the "Interagency

CRA Questions and Answers" on the Federal Financial Institutions Examination Council Web site at [www.ffiec.gov/cra/qnadoc.htm](http://www.ffiec.gov/cra/qnadoc.htm).)

One venue for expanding small business lending is the Capital Access Program, which is offered in many states. (See article titled "States Get \$1.5 Billion to Support Small Businesses," page 9.) These portfolio insurance programs allow a borrower and a lender to split an insurance fee that is kept in a reserve fund at the lending bank and matched by the state government. The reserve fund is used



to support loans to small businesses. Loans obtained under these programs enable community banks to serve small business borrowers whom they deem creditworthy but are unable to approve for a variety of reasons.

Banks participating in the SBLF may consider extending U.S. Small Business Administration (SBA) 504 loans. In these loans, the bank assumes 50 percent of the loan, the SBA guarantees 40 percent, and the borrower pledges 10 percent. The bank's portion of the loan can be considered a qualified small business loan under the SBLF.

Another venue for partnerships to expand small business lending is the network of U.S. Export Assistance Centers. The SBA partners with the U.S. Department of Commerce and the Export-Import Bank of the United States in this national network. These centers are small businesses' one-stop shops for trade promotion, financing, and export insurance programs. (See article titled "Promoting Small Business Job Growth Through Exports," page 13.) The SBA also supports Small Business Development Centers that offer small businesses assistance with financial planning, marketing, production, organization, engineering, technical problems, and feasibility studies.

Banks may also consider making small business loans to businesses receiving equity investments from Small Business Investment Corporations (SBIC). The SBICs are privately owned and managed investment firms that are overseen

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by the SBA and provide funding for small businesses. Since its creation in 1958, the SBIC program has provided more than \$50 billion in capital to more than 100,000 small businesses, some of which became well-known names. The SBA Web site has more information on the SBIC program at [www.sba.gov/content/sbic-program-0](http://www.sba.gov/content/sbic-program-0).

Finally, an eligible institution may refinance securities previously issued to the Treasury Department under the Community Development Capital Initiative or the Capital Purchase Program, provided the institution has not missed more than one dividend payment under the Capital Purchase Program. The Treasury Department Web site includes more information on the treatment of these securities under this program at [www.treasury.gov/resource-center/sb-programs/Pages/requirements.aspx](http://www.treasury.gov/resource-center/sb-programs/Pages/requirements.aspx).

## **SBA's 'Advantage' Loans Boost Underserved Communities**

In December 2010, the U.S. Small Business Administration (SBA) announced two new loan initiatives—Small Loan Advantage and Community Advantage—that increase the number of lower-dollar SBA 7(a) loans going to small businesses and entrepreneurs in underserved communities. Research has shown that smaller loans are more likely to benefit traditionally disadvantaged borrowers.

Both Small Loan Advantage and Community Advantage offer a streamlined application process for SBA-guaranteed 7(a) loans up to \$250,000. These loans come with the regular 7(a) government guarantee: 85 percent for loans up to \$150,000 and 75 percent for those greater than \$150,000.

Small Loan Advantage is available to more than 600 financial institutions in the SBA's Preferred Lender Program (PLP). Under the PLP, which includes most of the SBA's highest volume lenders, final credit decisions are delegated to lenders. There is no requirement that the small business borrower is in an underserved market.

With Community Advantage, the SBA has expanded the number of lenders by opening SBA's 7(a) loan program to "mission-focused" financial institutions, including non-supervised Community Development Financial Institutions, Certified Development Companies, and SBA-authorized microloan intermediaries. At least 60 percent of a Community Advantage lender's SBA loan portfolio must be in underserved markets.

More information about the SBA's Advantage Loan Initiatives is available at [www.sba.gov/advantage](http://www.sba.gov/advantage).

To participate in the SBLF, applications should have been submitted by May 16, 2011. The Treasury Department's authority to make capital investments under the SBLF ends September 27, 2011. It should be noted that the SBLF is not related to the Troubled Asset Relief Program.

### ***Where Are the SBLF Participation Guidelines?***

The Treasury Department published four sets of terms. They can be accessed from the Treasury Department Web site:

- For community banks at [www.treasury.gov/resource-center/sb-programs/Documents/SBLF\\_Getting\\_Started\\_Guide\\_Final.pdf](http://www.treasury.gov/resource-center/sb-programs/Documents/SBLF_Getting_Started_Guide_Final.pdf)
- For mutual institutions at [www.treasury.gov/resource-center/sb-programs/Documents/SBLF%20Mutual%20Institutions%20Term%20Sheet.pdf](http://www.treasury.gov/resource-center/sb-programs/Documents/SBLF%20Mutual%20Institutions%20Term%20Sheet.pdf)
- For subchapter S corporations at [www.treasury.gov/resource-center/sb-programs/Documents/SBLF\\_S\\_Corporation\\_Term\\_Sheet\\_05-02-11.pdf](http://www.treasury.gov/resource-center/sb-programs/Documents/SBLF_S_Corporation_Term_Sheet_05-02-11.pdf)
- For community development loan funds at [www.treasury.gov/resource-center/sb-programs/Documents/SBLF-CDLF%20Term%20Sheet.pdf](http://www.treasury.gov/resource-center/sb-programs/Documents/SBLF-CDLF%20Term%20Sheet.pdf)

### ***For More Information***

A list of banks receiving SBLF money will be published on the OCC small business Web resource

## **SBA 504 Program Allows Businesses to Refinance Fixed Assets**

A temporary provision in the Small Business Jobs Act of 2010 allows small businesses to refinance eligible fixed assets, such as owner-occupied real estate, machinery, and equipment, through the U.S. Small Business Administration's (SBA) 504 program without the usual business expansion requirement.

The program is intended for small businesses that are performing well and making their payments on time but, because of the downturn in real estate values, may have a hard time refinancing their loans. Loans with federal guarantees, such as existing 504, 7(a), or U.S. Department of Agriculture loans, cannot be refinanced through this program.

The program is structured like the SBA's traditional 504 program:

- A bank provides a loan, secured by a first lien, covering at least 50 percent of the project's cost.

- A loan from an SBA Certified Development Company, secured with a second lien and backed by a 100 percent SBA-guaranteed debenture (unsecured bond), covers up to 40 percent of the costs.
- The small business borrower contributes at least 10 percent of the project cost.

The bank portion of the SBA 504 loan may count as a qualified small business loan under the Small Business Lending Fund guidelines.

Applicants must demonstrate that their loans are current and that they have made all required payments in the year before their application. The program began accepting applications on February 28, 2011. The application deadline is September 27, 2012.

More details about the SBA's 504 Loan Refinancing Program can be found at [www.sba.gov/content/504-loan-refinancing-program](http://www.sba.gov/content/504-loan-refinancing-program).

directory once the information is released by the Treasury Department. For more information, visit the Treasury Department Web site at [www.treasury.gov/resource-center/sb-programs/Pages/Small-Business-Lending-Fund.aspx](http://www.treasury.gov/resource-center/sb-programs/Pages/Small-Business-Lending-Fund.aspx). For general inquiries, call the SBLF information line at (888) 832-1147; for questions about a specific institution, e-mail the Treasury Department at [SBLFInstitutions@treasury.gov](mailto:SBLFInstitutions@treasury.gov), a confidential e-mail address.

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**The bank portion of the SBA 504 loan may count as a qualified small business loan under the Small Business Lending Fund guidelines.**

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# States Get \$1.5 Billion to Support Small Businesses

*Ammar Askari, Community Development Expert, Office of the Comptroller of the Currency*

**A**uthorized in the Small Business Jobs Act of 2010, the State Small Business Credit Initiative (SSBCI) provides almost \$1.5 billion to fund state programs that support lending to small business. Many state programs are eligible for this funding, including portfolio insurance programs known as Capital Access Programs (CAP); loan guarantee programs; loan participation programs; cash collateral programs; and state-funded venture capital programs.

The initiative strengthens state programs that leverage private lending to creditworthy small businesses that are unable to obtain financing through traditional channels. Funds under this initiative are permitted only to extend new credit. The funds are distributed through two channels:

- Capital Access Programs.
- Other Credit Support Programs (OCSP).

## ***Loans Through Capital Access Programs***

Loans originated in conjunction with CAPs may be desirable for community banks. These loans enable the banks to serve small business borrowers whom the banks deem creditworthy but are unable to approve for a variety of reasons. Banks use their own underwriting process and documentation to issue the loans. CAPs create reserve funds



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**Esteban Cruz provides rental equipment such as chairs, tables, linens, and moonwalk machines through his EC's Moonwalk business in San Antonio, Texas.**

that are kept at the lending banks and are used to provide portfolio insurance for all loans enrolled in CAPs, giving banks flexibility when managing loans that default.

By helping to capitalize loan loss reserves, the federal government encourages small business lending while ensuring banks use sound lending practices.

## **What Type of Financial Institution Can Participate?**

Banks, credit unions, and Community Development Financial Institutions (CDFI) are eligible to participate. There are no size limitations for lenders in the SSBCI.

## **What Are the Program Requirements Relevant to Financial Institutions?**

Financial institutions participating in the SSBCI process must possess sufficient commercial lending experience, financial and managerial capacity, and operational skills to meet the program's goals. The state CAP is expected to review participating banks' Uniform Banking Performance Reports and their peer analysis; credit unions' Financial Performance Reports; and the CDFI Assessment and Rating System, along with audited annual reports.

Lenders must have a meaningful amount of their capital at risk in the loan. Private lenders who have 20 percent or more loss exposure will satisfy this requirement. Most lenders automatically meet this requirement unless their loan is guaranteed by some other program.

States must obtain assurances from lenders that the borrowers will indeed use the loans for business purposes. These include start-up costs, working capital, business acquisitions, franchise financing, equipment loans, inventory financing, commercial real estate acquisitions, and construction and expansion. See the Treasury Department's list of prohibited purposes in the "Guidelines for State Small Business Credit Initiative" at [www.treasury.gov/resource-center/sb-programs/Documents/Policy%20Guidance.pdf](http://www.treasury.gov/resource-center/sb-programs/Documents/Policy%20Guidance.pdf).

### How Are the Funds Allocated?

The funds are allocated according to a formula that guarantees each participating state 0.9 percent (or about \$13 million) of the available funds, in addition to a sum calculated using the state's relative employment in 2008 and 2009. Expected allocations range from the minimum of \$13 million in Idaho to \$169 million in California. Funds must be used by the state within two years; otherwise, the money is returned to the U.S. Department of the Treasury's general funds.

## Startup America Initiative Spurs Innovative Firms

Under the White House's new Startup America initiative to accelerate high-growth entrepreneurship, the U.S. Small Business Administration (SBA) is committing \$2 billion as a match to private sector investment in high-growth companies over the next five years.

Using existing authority and the operating infrastructure of the Small Business Investment Company program, the SBA-guaranteed bonds match private capital raised by two types of privately owned and managed investment funds:

- **Impact Investment Fund.** The SBA is committing \$1 billion to funds investing in companies in underserved

or economically distressed areas and companies in emerging sectors such as alternative energy. The SBA provides a 2-to-1 match to private capital raised by these funds.

- **Early-Stage Innovation Fund.** The SBA provides a 1-to-1 match to private capital raised by early stage seed funds.

To learn more, the SBA offers information on Small Business Investment Companies at [www.sba.gov/content/sbic-program-0](http://www.sba.gov/content/sbic-program-0) and the Startup America initiative at <http://www.sba.gov/startupamerica>.

### Who Can Apply?

All 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of Northern Mariana Islands, Guam, American Samoa, and the U.S. Virgin Islands are eligible for funding. Each participant must have a designated office to implement the program. Each allocation agreement must conform to set standards, internal controls, and compliance, audit, and reporting requirements.

The "notice of intent" submission deadline for the program was November 26, 2010. The expected allocations are listed on the Treasury Department's Web site at [www.treasury.gov/press-center/press-releases/Documents/document5tg896](http://www.treasury.gov/press-center/press-releases/Documents/document5tg896)

.pdf. The full application deadline was June 27, 2011.

### What Are the Conditions for CAPs?

To take advantage of this initiative, states that do not have an existing CAP may start one by seeking technical assistance from the Treasury Department. State programs should be fully operational within 90 days of allocation agreements.

Participating CAP programs must meet the following conditions:

- For the new loan to be enrolled in this loss reserve program, the lender and the business borrowers are asked to split insurance premiums equal to a minimum of 2 percent

and a maximum of 7 percent of the loan amount.

- Participating states have to provide matching contributions to the reserve fund in an amount at least equal to the total of the insurance premium charges paid by the borrower and the lender for any new loan.
- This portfolio insurance is available only for loans to borrowers with 500 employees or fewer at the time that the loan is enrolled in the program and where the loan amount does not exceed \$5 million.
- The lender cannot use the new loan to pay off a prior debt or refinance an old loan to the small business borrower.

### ***Loans Through Other Credit Support Programs***

A participating state may be eligible for federal contributions for OCSPs. These programs include collateral support programs, loan participation programs, state-sponsored venture capital programs, and loan guarantee programs. States may opt to apply for funds in use with OCSPs when they don't have an established CAP, or when the CAP does not have the capacity to distribute the new funds.

To be approved to OCSPs, states must:

- Demonstrate reasonable expectation that OCSPs will meet a 1 to 10 leveraging requirement, where state programs generate \$10 in new private lending for every \$1

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## **A participating state may be eligible for federal contributions for OCSPs.**

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in federal funding. Although this requirement does not apply to CAPs, states may include leverage achieved by CAPs in calculating the multiples in leverage.

- Ensure lenders have some capital at risk. OCSP lenders are expected to bear at least 20 percent of the loss from default. Under this program, if a lender participates in a Small Business Administration (SBA) loan guarantee program, the OCSP loan guarantee program may not guarantee the unguaranteed portions of the SBA-guaranteed loans.
- Use federal funds to extend credit support that
  - targets an average borrower size of 500 employees or less.
  - does not extend credit support to borrowers with more than 750 employees.
  - targets loans with an average principal amount of \$5 million or less.
  - does not support loans that exceed a principal amount of \$20 million.

In determining the state eligibility for these OCSPs, the Treasury Department considers the benefits

to the states and other participating geographic locations (new jobs, new loans, increased income, and tax revenues); the participants' operational capacity (management qualifications, experience, adoption of best practices); the capacity of the participants' existing OCSPs (financial strength and operational capacity); internal accounting and administrative control systems (internal and independent audits); and the soundness of the programs' designs (established business models and no significant weaknesses).

States must provide quarterly and annual reports to the Treasury Department detailing the use of funds; number of borrowers; amount of these loans; and loan breakdown by industry, size, zip code, and borrower's number of employees.

Participating states must provide a plan showing how they will use the allocated funds to provide access to capital in low- to moderate-income and other underserved communities, including to women- and minority-owned small businesses.

Finally, SSBCI participants are encouraged to employ best practices in risk-based pricing of loans or insurance premiums; credit scoring to assess creditworthiness; and financial modeling for loan performance, risk-based capital adequacy standards, and standardized reporting.

The SSBCI ends September 26, 2017, seven years after the initiative's enactment.



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## ***How Do the State Small Business Credit Programs Work in Practice?***

To learn how some experienced states run SSBCI-type programs, we interviewed program administrators in Indiana and North Carolina.

These two states use the CAP program primarily as credit enhancement for small business borrowers who are creditworthy but unable to meet traditional underwriting guidelines. Matt Tuohy, Program Manager of the Indiana Economic Development Corporation, says, “CAPs tend to be hands-off, very easy to use, credit-enhancement programs targeting small loans.” In Indiana, such loans would average around \$50,000.

A typical borrower in the Indiana CAP is the “mom and pop” business. “The CAP dispenses a relatively small amount of funds [\$600,000 per year on average],” says Tuohy. “This makes it unlikely that the Indiana CAP will be the primary channel for this large federal injection of funds. Instead, Indiana will use OCSBs as the channel of choice for the SSBCI funds.”

This is not the case in North Carolina. The North Carolina CAP administration has a decade of experience managing the program and has been able to lend a state-appropriated \$3.3 million in two seven-year cycles. According to Scott Daugherty, the North Carolina Small Business Commissioner, the program has produced 1,800 loans with \$103 million in commercial lending, with

losses well within allotted reserves. This strong track record is why the program administration opted to channel the federal funds through the North Carolina CAP.

The North Carolina Rural Economic Development Center administers the new funds with oversight from the state’s small business office. “Thus far, nearly 40 banks have expressed interest in participating, and we expect about 60 to 70 financial institutions to participate eventually,” Daugherty said. The interested financial institutions include community banks, a few large regional banks, 10 credit unions, and a handful of CDFIs.

The program parameters regarding loan size and eligibility mirror those set by the federal legislation. The North Carolina program emphasizes extending loans to underserved populations. To do this, the North Carolina CAP uses an extensive network of community college small business and entrepreneurship centers, the state’s Small Business and Technology Development Centers, and other state managerial and technical assistance resources. This network’s client base includes nearly 30 percent minority-owned businesses and 39 percent female-owned businesses.

“Having an extensive outreach and service delivery channel is an important factor in the success of this program,” Daugherty said. The program targets companies with 200 employees or less—a cohort that has proven to be a major contributor to job creation.

To enhance the chances of success of the CAP, the program administrators sought private sector support for the new round of funding. “One of the challenges facing the CAP in North Carolina is that the credit scores of many businesses have been negatively impacted during the recent recession,” Daugherty said. “Banks will have to bring a broader time frame view to their credit decisions to review financial performance both before the recession and current growth opportunities. Many leaders in the North Carolina financial industry have been supportive of the CAP program and think that it can help offset modest credit degradation related to the recession.”

Lenders interested in learning more about the Indiana and North Carolina CAPs may contact the Indiana Economic Development Corporation (<http://iedc.in.gov>) and the North Carolina Commissioner for Small Business (e-mail: [sdaugherty@nccommerce.com](mailto:sdaugherty@nccommerce.com)). For those interested in other state programs, visit the Treasury Department online Resource Center at [www.treasury.gov/resource-center/sb-programs/Pages/state-programs.aspx](http://www.treasury.gov/resource-center/sb-programs/Pages/state-programs.aspx).

The OCC will publish links to states operating SSBCI in its Small Business Resource Directory on the OCC Web site at [www.occ.treas.gov/topics/community-affairs/resource-directories/small-business/index-small-business.html?submenuheader=0](http://www.occ.treas.gov/topics/community-affairs/resource-directories/small-business/index-small-business.html?submenuheader=0).

# Promoting Small Business Job Growth Through Exports

*Ammar Askari, Community Development Expert, Office of the Comptroller of the Currency*

In January 2010, the White House announced the National Export Initiative (NEI), a multi-year effort to expand U.S. jobs by increasing the number of companies exporting and by expanding the markets to which U.S. companies sell. Although more than 97 percent of U.S. export companies are small businesses with fewer than 500 employees, less than 1 percent of all small businesses engage in exporting.

In September 2010, the administration's Export Promotion Cabinet, which was created to help implement the NEI, published its Report to the President on the National Export Initiative (see [www.whitehouse.gov/sites/default/files/nei\\_report\\_9-16-10\\_full.pdf](http://www.whitehouse.gov/sites/default/files/nei_report_9-16-10_full.pdf)). The report lays out eight recommendations for reaching the initiative's goals. "Exports by small and medium-sized enterprises (SME)" is priority number one.

One of the cornerstones of the NEI was the passage of the Small Business Jobs Act of 2010 (SBJ Act). Signed by the President in September 2010, the SBJ Act includes numerous provisions designed to support and promote exports by SMEs.

"What the SBJ Act did is emphasize the important role small businesses play in U.S. exports," says Richard Ginsburg, Senior International Trade Specialist at the U.S. Small Business Administration (SBA). "By dedicating significant additional



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**Kathleen Mayes, left, runs a Cajun food business in San Antonio, Texas, called Louisiana Purchase.**

resources to small business export promotion, the SBJ Act prominently positioned the SBA and its programs in this important effort."

The SBA provides small businesses with access to capital and offers education, development, and technical assistance. The SBA's export-oriented loan programs include Export Express, Export Working Capital Loans, and International Trade Loans (see [www.sba.gov/content/export-loan-programs](http://www.sba.gov/content/export-loan-programs)). "The SBJ Act strengthened existing SBA programs helping SMEs in the areas of export financing, export counseling, and technical assistance," Ginsburg says. For these programs, the SBJ Act:

- Raised the International Trade Loan and Export Working Capital Loan limits to \$5 million, up from \$2 million, both with 90 percent guarantees.
- Made permanent the SBA Export Express Loan with a 90 percent guarantee for loans up to \$350,000 and a 75 percent guarantee for loans greater than \$350,000, up to the lending limit of \$500,000.
- Provided \$90 million in state grants over three years for small business export promotion.
- Increased staff and resources in the SBA's financing, counseling, and technical assistance areas.

The SBA also partners with the U.S. Department of Commerce and the Export-Import Bank of the United States in a national network of U.S. Export Assistance Centers (USEAC). The USEACs provide a one-stop shop for trade promotion, financing, and export insurance programs.

Uncertainty and lack of familiarity with trade financing are major obstacles to U.S. small business entry into global trade. When asked by *The Wall Street Journal* why so few U.S. small businesses export, SBA Administrator Karen Mills cited fear as the main reason. “They’re afraid that they don’t understand the complexities of the regulations or they fear that they won’t get paid.” (See *The Wall Street Journal* article at [http://online.wsj.com/article/SB10001424052748704050204576218511730027184.html#mod=todays\\_us\\_marketplace](http://online.wsj.com/article/SB10001424052748704050204576218511730027184.html#mod=todays_us_marketplace).)

Ginsburg echoes that assessment. “When I speak with small business owners, I usually ask if any of them have received an e-mail from outside the U.S. inquiring about their products or services. The majority of the audience usually responds affirmatively. When I ask how many of them have actually replied to the inquiry, only a few raise their hands! This is anecdotal evidence that the potential is there but it is not being tapped,” Ginsburg says.

This is why the network of USEACs is so important. Assistance center staff members and commercial bankers say a visit to an export

assistance center is often the first time a small business owner learns about trade finance and export assistance programs.

M.G. Shetty, a Senior Vice President of Trade Finance and Sales at the Bank of Texas in Houston, cites a small business that had about \$3 million in annual sales from domestic markets only. The business produced a unique product with strong global demand potential. Shetty suggested the business explore export financing and introduced the owner to contacts at the Export-Import Bank in his region.

The small business owner was not aware of the USEAC and Export-Import Bank programs or the

services for finding potential buyers in foreign markets. After receiving training and assistance, the small business closed a transaction with a buyer in Singapore for \$1.3 million. Afterward, the small business focused all its effort on international markets. In a few years, the business’s sales grew to \$16 million, exclusively from international buyers.

### ***For More Information***

The SBA offers information on USEACs and how to find your closest SBA district office at [www.sba.gov/about-offices-list/2](http://www.sba.gov/about-offices-list/2). Visit the NEI’s multi-agency Web site for additional information on exporting at <http://export.gov>.

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