
VSBEFA

**Virginia Small Business
Financing Authority**

SSBCI Capital Access Program (“CAP”)

Program Manual

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I. Program Overview

Since 1998, the Virginia Small Business Financing Authority (VSBFA) has operated a statewide financing assistance program, known as the Capital Access Program ("CAP" or the "Program"). The Program was modeled after similar successful programs in use in other states for many years. In 2012, the Program was significantly enhanced due to increased capitalization as the result of the U. S. Treasury's State Small Business Credit Initiative (SSBCI).

The Program is designed to assist financial institutions in making small business loans by mitigating some of the risk associated with the loan. The Program offers lenders a flexible, non-bureaucratic tool to expand their market base and enhance their ability to meet the financing needs of Virginia's businesses. For the financial institutions who participate, the major benefits of the Program are its simplicity and flexibility. Decisions regarding the enrollment of loans in CAP are made by lenders without approval or involvement from VSBFA. The loan enrollment is completed after the loan is made and involves a two-page Loan Enrollment form. Lenders may provide term loans, lines of credit or both, and may enroll all or part of a loan.

From the state's perspective, CAP is a judicious use of scarce resources. Since the Program is designed to lower risk on a portfolio of loans, a small amount of state funding can generate a significant incremental amount of bank financing. From the perspective of the financial institution, CAP is an easy and efficient means of securing a credit enhancement on a loan.

II. Program Mechanics

Unlike some government programs which provide a guaranty of a specific loan, CAP is different in that the program utilizes an "insurance" concept on a portfolio of loans. Under the Program, each participating financial institution builds a loan loss reserve (the "Reserve Fund") through fees collected from the financial institution/borrower and from VSBFA. A separate Reserve Fund is established for each participating financial institution, so the performance of any one participating financial institution will not affect the others. Moreover, the Reserve Fund is not specific to individual loans, but is used to offset all or part of a loss on any enrolled loan in a participating financial institution's CAP loan portfolio.

PLEASE REFER TO THE *BANK PARTICIPATION AGREEMENT* FOR ALL INFORMATION ON ENROLLMENT FEES, ELIGIBLE LENDERS AND BORROWERS, LOAN USES, TERMS AND STRUCTURE, AND MAXIMUM ENROLLMENT AMOUNTS.

A. Maintenance of the Reserve Fund

A separate Reserve Fund is maintained for each financial institution participating in the Program and the funds in that account are completely dedicated to covering losses on loans enrolled by that financial institution. All funds credited to the Reserve Fund are solely controlled by VSBFA and are owned by VSBFA.

1. Location of the Reserve Fund:

- For efficiency and administrative convenience, the Reserve Fund for participating financial institutions will be established in the name of VSBFA and maintained at that financial institution.
- Reserve Fund accounts are to be interest bearing, and participating financial institutions may not charge VSBFA for any fees related to CAP loan transactions or for the maintenance of the Reserve Fund account.
- VSBFA will monitor Reserve Fund account activities and will deposit VSBFA's matching premium contributions to the Reserve Fund.
- ***The Reserve Fund accounts are public deposits pursuant to the Security for Public Deposits Act and must be indicated as such on the bank records. The financial institution is subject to the collateralization and reporting requirements of the Act.***

2. Uses of Accrued Interest:

- Interest income earned on the Reserve Fund will be credited to the account.
- VSBFA may withdraw at any time up to 50% of all interest or income credited to the Reserve Fund. VSBFA will utilize these funds to offset the administrative costs associated with operating the Program or to make future matching fees.

3. Excess Reserve Fund Withdrawal Procedures:

- If for 12 consecutive months the amount in a financial institution's Reserve Fund continuously exceeds the amount of that institution's existing CAP loan portfolio, VSBFA may withdraw any excess funds within this reserve so that the amount remaining in the reserve will be equal to the outstanding aggregate balance of existing CAP loans.
- If a participating financial institution effectively discontinues using the Program and no additional loans are being enrolled, VSBFA will make withdrawals against the Reserve Fund as described above until all loans enrolled by the financial institution have been repaid. At that time, all remaining funds in the Reserve Fund account will be withdrawn by VSBFA.
- If a financial institution formally terminates its participation in the Program, the 12-month period noted above will not apply and VSBFA may withdraw excess funds from the reserve immediately.

4. Reserve Fund Statement:

The financial institution is to submit to the VSBFA a monthly statement which reflects all activity for the period under the Reserve Fund within 10 days of the preceding month-end.

B. Initial Financial Institution Participation Procedures

1. Execution of the CAP Bank Participation Agreement, the Lender Sex Offender Certification (Exhibit 1), and Designation of Contacts.

- If not already completed, add the financial institution's name and the date to the front of the Agreement and have a senior officer of the bank execute the Agreement on the last page.
- If not already completed, add the financial institution's name to the front of the Lender Sex Offender Certification and have a senior officer of the bank check the Sex Offender Registry and then certify that the financial institution does not have any principals on the most current Sex Offender list.
- Please advise VSBFA of the financial institution's CAP primary and secondary contact information. The contact information should include names, titles, phone numbers, e-mail addresses and fax numbers.

2. Establishment of the Reserve Fund Account.

- The account that will be used as your financial institution's Reserve Fund Account must be an interest-bearing, demand deposit account, which **will not incur service charges** of any kind, including monthly maintenance fees. The account holder should be Virginia Small Business Financing Authority and the first address line should show Virginia Capital Access Program – Reserve Fund. **The Reserve Fund is public deposits pursuant to the Security for Public Deposits Act and must be indicated as such on the financial institution's records. The financial institution is subject to the collateralization and reporting requirements of the Act.**
- The Virginia Small Business Financing Authority is a political subdivision of the Commonwealth of Virginia. Our tax identification number is: 54-1300845.
- There will be three authorized signatories on the account; **Scott E. Parsons**, Executive Director, Anna B. Mackley, Chief Credit Officer/Operations Manager, and Mary Jo Sisson-Vaughan, Regional Lending Manager.
- Please forward to VSBFA your signature card and account resolution necessary to establish the deposit account.
- Once the Reserve Fund account is established, please supply VSBFA with a starter kit of approximately 15-20 checks.

The receipt of the starter kit is necessary because we deposit the state matching funds through EFT. It will take approximately one week to finalize arrangements for the electronic funds transfer. However, this will not prohibit your financial institution from proceeding with the closing of any loans you intend to enroll in the Program.

III. Program Procedures

A. Processing and Enrolling an Eligible Loan in CAP

Prior to enrolling a loan in CAP, the participating financial institution must:

1. Determine that the financial institution desires to use CAP as the result of the proposed loan's riskier profile.
2. Approve the loan. (VSBFA does not participate in the approval decision.)
3. Establish the premium level, and calculate the enrollment fee based on the amount of the loan the financial institution wishes to enroll. (See also "Enrolling a Portion of the Loan" below.)
4. Collect the enrollment premium from the borrower.
5. Deposit the enrollment fee into the financial institution's Reserve Account.
6. Obtain the borrower's signature on the "Borrower's Certification Forms", to include the "Borrower Certification for Use of Proceeds" form, and the "Borrower Sex Offender Certification" form (see Exhibit 2).

To process and enroll an eligible loan under CAP, the participating financial institution submits to the VSBFA:

1. a completed CAP Loan Enrollment form (Exhibit 3) and
2. the executed Borrowers Certification Forms (Exhibit 2) and
3. a copy of the bank's deposit receipt for the enrollment fee.

Faxed or electronic copies of the required documentation are to be sent to (804) 225-3384, VSBFA Loan Accounting – ATTN: Patricia Musial or patricia.musial@sbsd.virginia.gov

When VSBFA receives a CAP Enrollment Form:

- VSBFA reviews the form for completeness;
- Electronically transfers the matching premium amount into the Reserve Fund account at the participating financial institution.

B. Enrolling a Portion of a Loan:

In situations where lenders feel marginally comfortable with a prospective loan, the financial institution may enroll under the Program only that portion of the loan that it deems more risky. In this case, premiums are paid only on the portion of the loan the financial institution chooses to enroll.

In the event of default, the lender could recoup up to the enrolled amount of principal loss on the loan, plus accrued interest on that portion and documented out-of-pocket collection expenses.

By selecting this alternative, the financial institution and the borrower reduce the borrower's costs by reducing the premium payment that must be deposited into the Reserve Fund account and excess premiums are not paid for coverage that is not needed.

C. Filing a Claim under the Program

When a loan enrolled under the Program defaults, the participating financial institution shall determine when and how much of the enrolled loan to charge off. The lender may then file a loss claim form (see Exhibit 5) within 120 days of the charge-off of any part, or all, of the enrolled loan. The financial institution is entitled to recover principal, accrued interest and any reasonable collection expenses related to the charge-off loan. The financial institution should retain documentation in its files evidencing all expenses for which a claim is filed.

Should the financial institution file two or more claims contemporaneously, and if there are insufficient funds in the Reserve Fund account to cover the entire amount of the claims, the financial institution may designate the order of the priority in which VSBFA should pay the claims from the Reserve Fund account.

D. Payment of a Claim

Provided the financial institution has not made representations it knew to be false at the time of loan enrollment, VSBFA will promptly pay a claim, as submitted, from the Reserve Fund account. If there are insufficient funds in the Reserve Fund account to cover the entire amount of the financial institution's claim, VSBFA shall pay the financial institution an amount equal to the current balance of the Reserve Fund account, less any fund interest accrued to VSBFA.

E. Liability

All loans enrolled under the Program are private transactions between the borrower and the financial institution. VSBFA's responsibility lies in administering the Program and providing matching premium payments on CAP loans. VSBFA is not a party to the loans and disclaims any liability in connection with the loans enrolled under CAP.

By executing the Bank Participation Agreement, each participating financial institution represents that it understands the regulations and guidelines of the Program and warrants that it will comply with them as Program loans are enrolled. In addition, the financial institution acknowledges that VSBFA bears no liability to the financial institution beyond the funds which are deposited into the Reserve Fund account.

PLEASE REFER TO THE *BANK PARTICIPATION AGREEMENT* FOR INSTRUCTIONS ON THE FILING OF REPORTS.