Office of the
Comptroller of the Currency
U.S. Department of the Treasury

Community Developments Investments (February 2013)

State Small Business Credit Initiative

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U.S. Department of the Treasury

The State Small Business Credit Initiative (SSBCI) provides $1.5 billion to states, U.S. territories, eligible municipalities, and the District of Columbia to support new and existing programs that offer access to credit for small businesses and small manufacturers. The SSBCI was created by the Small Business Jobs Act of 2010 and is administered by the U.S. Department of the Treasury.

The Department of the Treasury building in Washington, D.C. The department works with states to implement the SSBCI program, which was created as part of the Small Business Jobs Act of 2010.

Although we are emerging from a financial crisis, many small businesses still struggle to find available credit from private lenders and investors to expand their businesses and hire employees. Many of these small businesses have the ability to repay a loan but are unable to access credit because of a lack of a repayment history or because the value of their collateral has fallen below traditional underwriting criteria. Many states have operated credit enhancement programs to address these issues, but funding for these programs has been reduced or eliminated because of state budget cutbacks.

The funding from the SSBCI program allows states to build on successful models for state small-business programs or to launch new programs that respond to market conditions and address local credit needs.

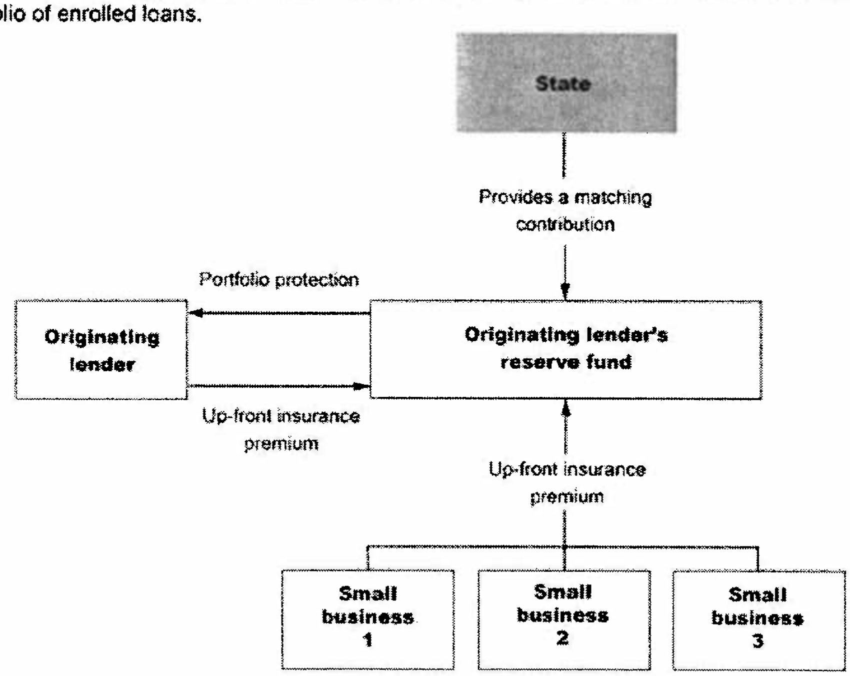
The most popular approved program types are:

- Capital access programs (CAP), as shown in Figure 1 (below), allow financial institution lenders to insure against the risk of small-business lending by creating a reserve fund that the lender may draw upon should it incur loan losses. In a CAP, the lender and the small-business borrower combine to contribute between 2 percent and 7 percent of the loan amount in up-front insurance premiums to the reserve account, and the amount is matched with SSBCI funds made available to the states.

Figure 1: Using SSBCI Funds to Support Capital Access

How Does a Capital Access Program Work?

A capital access program (CAP) is a loan portfolio insurance program. When a lender makes a CAP loan, the borrower and lender contribute to a reserve fund held by the participating lender. Using SSBCI funds, the state then matches the borrower's and lender's combined contribution. The state may add extra contributions using nonfederal funds for any targeted populations or geographies. Amounts in the lender's reserve fund are available to cover any losses incurred in its portfolio of enrolled loans.



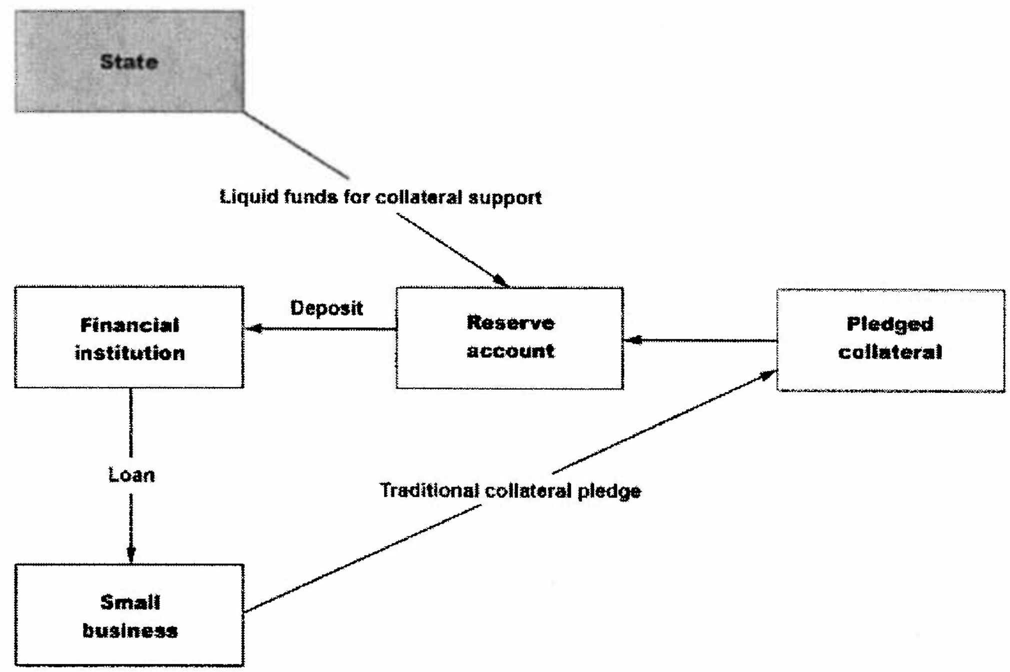
Source: U.S. Department of the Treasury

- Collateral support programs [http://www.treasury.gov/resource-center/sb-programs/Documents/SSBCI_Program_Profile_Collateral_Support_FINAL_May_17.pdf] (CSP) allow states to use funding made available through the SSBCI program to deposit highly liquid assets such as cash or certificates of deposit at the lender that serve as collateral for an approved loan. CSPs often support small-business borrowers whose tangible property, real estate, or equipment value has depreciated as a result of economic conditions and is no longer valuable enough to serve as collateral for a loan.

Figure 2: Using SSBCI Funds for Collateral Support

How Does a Collateral Support Program Work?

A collateral support program (CSP) provides pledged collateral accounts to lenders to enhance collateral coverage for small-business borrowers whose pledged assets fall short of the lender's underwriting standards. Under a CSP, cash is deposited with the lending institution in a reserve account, which, along with the borrower's pledged collateral, is available to cover any loan losses incurred by the institution.



Source: OCC

- Loan participation programs [http://www.treasury.gov/resource-center/sb-programs/Documents/SSBCI_Program_Profile_Loan_Participation_FINAL_May_17.pdf] (LPP) come in two varieties. In the first, the state uses funding made available through the SSBCI program to purchase a portion of a loan originated by a lender to a small-business borrower. In the second type of LPP, the state uses funding made available through the SSBCI program to provide a direct loan to a small-business borrower that is a companion loan to one originated by a lender. States may structure their purchased participation or companion loan at an interest rate that is lower than the financial institution loan.
- Loan guarantee programs [http://www.treasury.gov/resource-center/sb-programs/Documents/SSBCI_Program_Profile_Loan_Guarantee_FINAL_May_17.pdf] make funds available to the states through the SSBCI program to guarantee a portion of an approved loan.
- Venture capital programs [http://www.treasury.gov/resource-center/sb-programs/Documents/SSBCI_Program_Profile_Venture_Capital_FINAL_May_17.pdf] allow a state to use SSBCI funds to invest as a limited partner in a privately managed fund. The state may also directly make venture investments in small businesses. Some states, including those that had previously not had large amounts of venture financing, use these programs to attract more private capital for small businesses.

In their applications, states wanting to participate in the SSBCI program must demonstrate a reasonable expectation that each $1 in federal contributions will lead to $10 of new small-business lending by the end of the allocation period in December 2016.

A variety of small-business borrowers are eligible for state programs using funding made available through the SSBCI program. One condition for funds made available through the state program is that the small-business borrower must have fewer than 500 employees for CAP loans, and fewer than 750 employees for all other programs. There are additional restrictions on small-business borrowers and loan purposes.

Lender participation is essential to the program. Eligible lenders include any insured depository institution, insured credit union, or community development financial institution (CDFI).[1] Lenders can use the program to expand their small-business customer base and support state economic development efforts. The programs administered by the states that take advantage of funds made available through the SSBCI program are generally easy to use and allow lenders to retain control of the underwriting and credit decision-making. Certain transactions, such as those involving working capital or subordinate debt, as well as small transaction sizes, are well-suited for SSBCI-supported programs.

More Information:

For questions or comments, call (202) 622-0713, visit www.treasury.gov/ssbci [http://www.treasury.gov/ssbci], or e-mail ssbciquestions@treasury.gov [mailto:ssbciquestions@treasury.gov].

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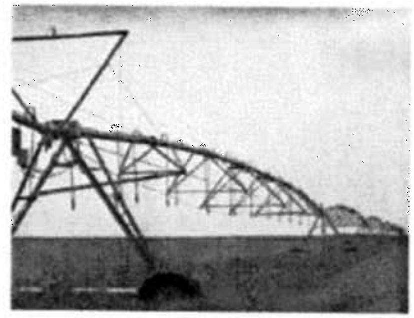
Case Study: Collateral Support Program Helps Idaho Create Jobs

A collateral support program[1] (CSP) is used to assist businesses that have suffered significant devaluations of the collateral they used to obtain credit. These businesses are generally healthy, with strong revenues and profit margins. They have sufficient cash flow to service a loan, but because of their collateral's declining worth, the loan-to-value ratio is less than the lender requires.

A CSP provides to lending institutions pledged collateral accounts that enhance the collateral coverage of borrowers. The accounts cover all or a portion of the collateral shortfall identified by the lending institution. This assistance helps bring the loan to within the lender's policy guidelines, and it preserves the borrower's liquidity.



An Idaho small business that makes farm and irrigation equipment received capital assistance through the State Small Business Credit Initiative, allowing the company to expand and create new jobs.

Lender: KeyBank
SSBCI implementing state agency: Idaho Housing and Finance Association

This case study involves Key Bank working with the Idaho Housing and Finance Association (IHFA) to provide a loan to an established manufacturer of irrigation systems and other agricultural equipment. The company had requested a loan of $1.25 million from KeyBank to construct a new, larger facility that would allow the company to increase capacity and create 10 new manufacturing jobs. The loan would be secured by the manufacturer's property and equipment.

The borrower met KeyBank's underwriting standards and was considered a strong credit. The appraised value of the property, however, was less than expected, creating a shortfall. The borrower and KeyBank explored various options to address the collateral shortfall and decided that the Idaho Collateral Support Program best met the needs of this transaction.

KeyBank discussed the transaction with the IHFA. After completing its internal underwriting, KeyBank submitted a two-page application to the IHFA, which approved $140,600 in collateral support within 48 hours of receiving the application.

The IHFA deposited the funds into a custodial account with KeyBank. In the event of default, KeyBank has the right to pursue all collateral but only has recourse to the state's deposit after liquidating the borrower's collateral. When the loan is repaid or matured, the collateral deposit is returned to the IHFA and the account is closed.

The Idaho Collateral Support Program allowed KeyBank to provide a local manufacturer with the financing necessary to grow and create new jobs. The collateral support brought the loan into line with KeyBank's lending policies and helped the borrower preserve cash, making both the loan and the borrower stronger and more secure.

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[1]Adapted from "SSBCI Program Profile: Collateral Support Program," U.S. Department of the Treasury, May 17, 2011.