

**GEORGIA DEPARTMENT
OF
COMMUNITY AFFAIRS**

**Georgia State Small Business Credit
Initiative**

**FINANCIAL INSTITUTION PRESENTATION
SEPTEMBER 2014**



September 2014

History & Background of State Small Business Credit Initiative (SSBCI)

- **Component of Small Business Jobs Act, bi-partisan legislation signed into law on Sep. 27, 2010**
- **\$1.5 billion set aside for SSBCI, managed by U.S. Treasury, to strengthen state-run lending programs to support small business**
- **Georgia's allocation is \$47,808,507**
- **Requirement for the state to generate overall 10:1 leverage**

Advantages and Opportunities for Georgia Lenders

- Credit enhancements to strengthen bank loans
- Delegated lending - Lenders manage underwriting process
- SSBCI program - quick turnaround and streamlined format
- Opportunity for CRA credit
- Opportunity to improve Safety and Soundness

Reviews (OCC, FDIC, Georgia DBF, FRB, FHLB)

What Does Georgia SSBCI Offer?

- Initiatives available to private lenders to expand small business lending
 - **GA LPP (Georgia Loan Participation Program)** - \$8 million
(Purchase participation up to 25% of enrolled loans ranging from \$100,000 up to \$5,000,000.)
 - **SBCG (Small Business Credit Guarantee)** - \$17.8 million
(50% loan guarantee with a conversion option into a risk reserve pool offering up to 80% reimbursement for loan losses)
 - **Georgia Funding for CDFIs** - \$20 million
(Loan participation program specifically designed for underserved SBs)
 - **GCAP (Georgia Capital Access Program)** - \$2 million
(Risk reserve pool funded with borrower/lender fees matched with SSBCI funds)

SSBCI – Program Statistics

As of September 30, 2014

➤ Enrolled Loans (#)	211
➤ SSBCI Investment	\$28,452,509
➤ Private Investment*	\$137,505,673
➤ Jobs Created	1339
➤ Jobs Retained	792
➤ Participating Lenders	42
➤ Counties Served	50

(Georgia SSBCI is available to all geographical locations in Georgia)

* Banks, Credit Unions, CDFIs, Private Lenders

SSBCI – General Eligibility Criteria

- **Loan proceeds can be used for eligible “business purposes”, including:**
 - **Start-up costs**
 - **Working capital**
 - **Business procurement, franchise fees**
 - **Equipment & inventory**
 - **Purchase, construction, renovation, or tenant improvements of eligible place of business**

SSBCI – General Eligibility Criteria

- **Refinancing is not eligible; however, renewals are eligible under certain conditions...as one example...performing lines of credit that balloon and become due...new balance must increase by at least 10%**
- **Passive real estate investment generally is not eligible. However, exceptions may apply based on owner occupancy (60% for new construction, 51% for acquisition or renovation of existing building).**

SSBCI – Eligibility Criteria (cont.)

- **Eligible small businesses include corporations, partnerships, joint ventures, cooperatives, sole proprietorships, state-designated charitable & other non-profit institutions.**
- **SBs generally defined as 500 or fewer employees**
- **SSBCI participation generally limited to \$500,000 or less, with exceptions and target amounts tailored for each program**
- **Participating lenders and borrowers will be required to provide certain assurances and certifications as required by US Treasury SSBCI guidelines.**

Some differences with SBA...

SBA	SSBCI
✓ <i>Only for-profit businesses qualify</i>	✓ <i>Non-profits qualify</i>
✓ <i>“Personal liquidity test”</i>	✓ <i>No restrictions on personal liquidity</i>
✓ <i>SOP for underwriting and servicing</i>	✓ <i>No SOP</i>
✓ <i>Guarantee up to 90%</i>	✓ <i>Guarantee up to 80% (typically 50%)</i>
✓ <i>No leverage requirement</i>	✓ <i>Requires at least 1:1 (Goal 10:1)</i>
✓ <i>Uniform product in all states</i>	✓ <i>Varies from state to state</i>

GA LPP (Georgia Loan Participation Program)

– What It Is

- **Newest Program – Introduced November 2013.**
- **GA LPP with SSBCI funding can be used to purchase a portion of a loan originated by an approved lender to a small business borrower.**
- **GA LPP can purchase up to 25% of the loan originated by the approved lender.**
- **DCA can purchase a participation from enrolled lenders in loans ranging from \$100,000 to \$5,000,000.**
- **GA LPP may be used for interim bridge financing, including SBA 504.**

GA LPP – How It Works

- **A Master Loan Participation Agreement is executed between the primary lender and DCA.**
- **Underwriting is performed by the primary lender that is shared with DCA to streamline the approval process of the purchased participation**
- **The lender closes the loan and sells a position to DCA.**
- **DCA will be in the subordinate lien position and the primary lender will have first claim to all recoveries.**
- **The lender keeps all its standard fees. There are no additional fees to use the GA LPP.**

GA LPP – How It Works (continued)

- **Loan servicing is performed by the primary lender, which shares proportional debt payments with DCA.**
- **Rates, fees and terms are determined by the primary lender.**
- **DCA may provide a lower interest rate than the primary lender for a limited period of time in order to improve the borrower's debt coverage ratio.**
- **Primary lender has unconditional right to repurchase the participation sold to DCA at any time.**
- **Refer to FAS 166 for Call Report treatment**

GA LPP and Private Bank Financing – Example Case

Total Project Cost	\$1,500,000
- Private Bank Financing	\$1,350,000 – Building Purchase
- Borrower Equity	\$ 150,000 -- Cash
-Bank Sells – Participates 25% of Bank Financing to SSBCI Directly	\$ 337,500 – 25% of \$1,350,000
Terms	Private Bank – 1 st lien on Land & Bldg SSBCI – 2 nd lien position
*Rational to use SSBCI	Project exceeds Banks Legal lending limit and \ or LTV Requirements

SBCG (Small Business Credit Guarantee)

What It Is

- The (“SBCG”) Program provides a 50% loan guarantee with a conversion option.
- The conversion option under the loan guarantee enables financial institutions to build a Risk Reserve Pool (RRP) held by the State in a centralized fund.
- Enrolled loans are covered with a 50% loan guarantee; loans converted to the RRP can be covered up to 80%.
- SSBCI funds are leveraged with private capital from eligible lenders (banks, credit unions, qualified private lenders, and CDFIs).

SBCG – How It Works

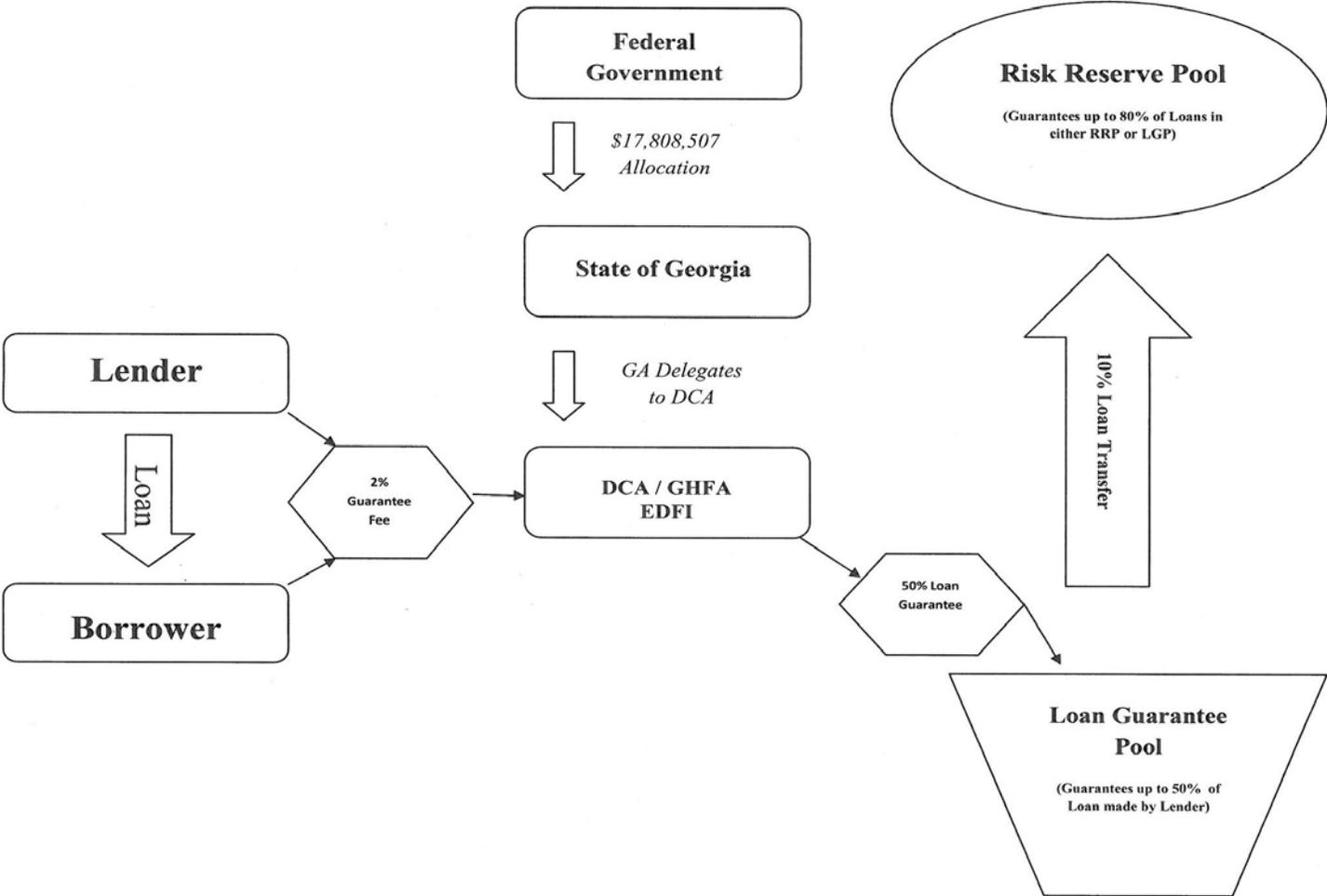
- **Borrower fees –For Term amortizing loans - 2% fee at funding, 1% annually paid at beginning of year thereafter.**
- **Borrower fees – For Lines of Credit – (LOC) \$100 deposit to be applied against the 2% fee that will be deducted pro-rata as advances are made on the LOCs during the first 12 months. Once the full 2% fee is received to DCA, the fee will then revert to 1% calculated and payable in the same manner for LOCs.**
- **Targeted to borrowers with 500 or fewer employees. Maximum loan amount generally \$500,000, with exceptions.**
- **Max terms for SBCG guarantee:**
 - *Lines of credit - 24 months*
 - *Amortizing loans – 48 months*
- **Deficiency guarantee – Lender must diligently pursue collection from borrower prior to filing claim.**

SBCG – How It Works (cont.)

- **Financial institutions will be incentivized to leverage private lending at 10:1 through the conversion option.**
 - **Financial institutions decide when to convert their 50% loan guarantee to the RRP. Upon conversion, annual fees are waived.**
 - **10% of the balance on a converted loan will be transferred to the RRP.**
 - **Under the RRP, the lender may receive up to 80% reimbursement for losses on individual credits.**
 - **Reserves can cover losses on any enrolled loans.**
 - **RRP will be held by State, not lenders.**

SMALL BUSINESS CREDIT GUARANTEE (SBCG) PROGRAM -- FLOWCHART

SMALL BUSINESS CREDIT GUARANTEE (SBCG) PROGRAM



SBCG Case Sample – Accounts Receivable for Software Small Business

		50% Guarantee Pool	Risk Reserve Pool
Total Project Cost	\$250,000		
- Conventional Bank	\$200,000		
- Borrower Equity	\$ 50,000		
- SBCG Guaranteed Amt	\$100,000	\$100,000	
Initial Fee – 2%			
Annual Fee	1% of guarantee balance		
Contribution to RRP assuming loan balance of \$180,000 at the end of Yr 1			\$18,000 (10% of loan balance)

GA Funding for Community Development Financial Institutions (CDFIs) – What It Is

- **GA Funding for CDFIs is a loan participation program specifically designed to increase access to capital for Georgia’s underserved small businesses (minority- and women-owned small businesses, and small businesses located in low- and moderate-income, minority, and other underserved communities).**
- **CDFIs are private financial institutions certified by the U.S. Treasury to provide credit and financial services to underserved markets and populations.**
- **<http://www.cdfifund.gov>**

GA Funding for CDFIs – How It Works

- **Designed for borrowers with 500 or fewer employees and target loan amounts of \$100,000 to \$250,000.**
- **State will accept subordinated collateral position behind other project lenders.**
- **CDFIs encouraged to offer lower interest rates on SSBCI loans, for lower blended rate to borrower.**
- **To meet US Treasury SSBCI thresholds, CDFIs are encouraged to leverage SSBCI funds (ideally \$10:\$1 private/SSBCI).**
- **All loans will have a minimum \$1:\$1 public:private investment through bank participation or other private funds. Loans will be required to meet no less than a 1:1 ratio on a per loan basis.**

GA Funding for CDFIs Case Sample – Bldg renovation & equipment for restaurant

Total Project Cost	\$600,000
- Private Bank Financing	\$440,000
- Borrower Equity	\$ 60,000
- CDFI (with SSBCI funds)	\$100,000
Terms	Private bank – 1 st lien on bldg & equip; State: second lien
	Bank interest rate: 6%; CDFI interest rate: 5%
	Contracting entity CDFIs retain and revolve interest and principal payments into new SSBCI projects.
	Originator/servicer CDFIs receive principal & interest payments and remit them to state CDFI fund.
	Both contracting entity & originator/servicer CDFIs earn fees for loan underwriting, closing and servicing.

GA Funding for CDFIs Case Sample – Construction or Acquisition of Building

Total Project Cost	\$600,000	Interim Financing
- Private Bank Financing	\$300,000	
- Borrower Equity	\$ 60,000	
- CDFI (with SSBCI funds)	\$240,000	
Terms	Private bank – 1 st lien on bldg & equip; State: second lien	
	Bank interest rate: 6%; CDFI interest rate: 5%	
	Upon take out by SBA 504 Debenture, contracting entity CDFIs retain and revolve interest and principal payments into new SSBCI projects. *Interim Financing must be greater than 90 days.	
	Originator/servicer CDFIs receive principal & interest payments and remit them to state CDFI fund.	
	Both contracting entity & originator/servicer CDFIs earn fees for loan underwriting, closing and servicing.	

GA Funding for CDFIs and Certified Development Company – (CDC) Real Case Example – 504 Hotel Construction Project – CDFI Interim Bridge Loan

Total Project Cost	\$7,640,000
- Private Bank Financing	\$3,155,639 – Construction & FF&E
- Borrower Equity	\$1,528,000 - Cash
- CDFI (with SSBCI funds)	\$2,292,000 – Interim Construction Financing
Terms	Private bank – 1 st lien on Land, bldg & FF&E; CDFI \ SSBCI: 2 nd lien position
	* Interim Financing must be greater than 90 days
	Contracting entity CDFIs retain and revolve interest and principal payments into new SSBCI projects after interim loan is paid from 504 debenture funding.
Rational to use SSBCI	Project exceeds Banks Legal lending limit and \ or LTV requirements

Getting Started – What You Need to Know



- **Application and Vetting Process for Participating Lenders**
- **Program Participation Agreements**
- **Loan Enrollment Procedures**
- **Transaction Documents**
- **Reporting Requirements & Compliance**

Application Steps – GA LPP* and SBCG

- Interested lenders visit Georgia SSBCI website (www.georgia-ssbc.org) or contact DCA to acquire applicable lender application package.
- Lenders complete application package and submit to DCA to request approval as participating SSBCI lenders.
- Upon review of application, DCA will notify lender of approval status via e-mail, with digital copy of formal PPA. Lender signs PPA and returns PPA to DCA for execution/signature by State.
- PPA contains terms and limitations of state and federal SSBCI regulations.
- ❖ *GA LPP – Interested Lenders contact SSBCI staff*

Transaction Documents

General Forms Applicable to All GA SSBCI Lenders

- **Borrower Certification and Enrollment Form**
- **Loan Filing Form and Lender Certification**

SSBCI Reporting Requirements

- **Lenders will supply required information to the State; State will forward required reports to US Treasury.**
- **Monthly Reports**
 - **SBCG Line of Credit Loans**
 - **GA-LPP Start reporting once the 1st funding occurs & payments begin.**
- **Quarterly Reports**
 - **Total amount and use of allocated funds, program income generated (CDFIs only), and charge-offs**
- **Annual Reports**
 - **SSBCI submits transaction-level data for each SSBCI-backed loan, plus subsequent private financing for OCSP loans**

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