



South Carolina Capital Access Program

Review of Program's 2008 Activity

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Executive Summary

The South Carolina Capital Access Program (SC CAP) is designed to give financial institutions operating in South Carolina a flexible and non-bureaucratic tool to make business loans that are more risky than conventional loans and that do not meet conventional underwriting standards. It uses a small amount of public resources to generate a large amount of private financing to many small businesses that might not otherwise be able to obtain financing.

In this report, the Department of Commerce provides an overview of the South Carolina Capital Access Program and its results within the year. 2008 figures are positive with the program assisting 91 small businesses with private financing from South Carolina lenders totaling over \$4.4 million.

Though there were only been 49 loans made in 2007, time is still required to generate interest with lenders and educate the public of the program's benefits. A more accurate measure of SC CAP will occur when the program has had a history of three full years and greater.

SC CAP is currently focusing on its targeted client; supporting small business lending with an average loan size of approximately \$40,000. Utilization of the program by participating lenders appears stable. Further tracking of default rates and activity will occur once the program has a longer history. This measurement will be required to determine the overall stability of the program, and determine if enrolled lenders are utilizing the program to serve the state's small business community.

During the 2008 calendar year, a majority of the deal flow occurred within the Berkeley-Charleston-Dorchester MSAs. Growth of the program should see it expand across South Carolina with a more geographic balance in future years. This is contingent upon the activity of lenders and the markets they serve. Nonetheless, woman & minority-owned businesses received 26% of the loans statewide.

Metropolitan Statistical Area	Loan Amount	# Loans
Berkeley-Charleston-Dorchester	\$2,596,356	48
Columbia	\$983,000	21
Non-MSA Areas	\$555,511	15
Greenville-Spartanburg	\$240,350	4
Myrtle Beach-Conway	\$85,000	3

Involvement of additional lenders and the growth of loan activity are essential to the success of the program. After reviewing the SC CAP's short history, the Department of Commerce was encouraged by the activity in SC CAP loans in 2007 and 2008 and even in these challenging economic times, anticipates stronger results in 2009.

How does it work?

SC CAP is based on an insuring concept. It is fundamentally different from traditional type of insurance or guarantee programs such as the Small Business Administration loans or other government programs that guarantee individual loans. SC CAP works on a portfolio concept.

SC CAP reserve fund is not specific to individual loans but is used to offset losses on any loan in the participating financial institution's SC CAP portfolio. The special reserve is owned by the State of South Carolina and managed

by BDC. It is earmarked in the participating institution's name, and the institution can withdraw funds from the reserve only to cover losses on loans made under the program.

Payments from three sources are made into an institution's earmarked reserve each time the institution makes a loan under the program. The borrower funds a premium payment, the institution matches the borrower's payment and State funds are contributed by BDC equal to 150% of the combined total of the borrower's payment and the institution's payment. The institution is allowed to recover the costs of its payment from the borrower, such as through higher interest rates, up-front fees or some combination thereof. Up-front premium payments and fees of the small business borrower can be financed as part of the loan.

The actual level of payments to be made into the reserve at the time of making any loan is determined by the institution within certain parameters. At the minimum, the borrower pays an amount equal to 1.5% of the loan amount, the institution would match that with another 1.5%, and then the BDC would contribute 4.5% from the allocated State funds, for a total of 7.5% being set up in the loss reserve fund. Greater reserves may be required by the lender based upon their risk analysis, but the maximum limit is set at 3.5% from the borrower, 3.5% from the lender and 10.5% from the fund. Under current lending standards, most banks and other institutions maintain a loss reserve of approximately 1.5% on a typical commercial portfolio.

- Participating Financial Institutions**
 1st Federal of South Carolina, FSB
 Ameris Bank
 Bank of Clarendon
 BankMeridian
 BB&T
 The Citizens Bank
 Community Resource Bank
 Congaree State Bank
 First Citizens Bank
 First Community Bank
 First Federal of Charleston
 First Savers Bank
 Harbor National Bank
 NBSC
 South Carolina Bank & Trust, NA
 South Carolina Bank & Trust - Piedmont

Table 1: Example of Capital Access Loan Transaction

<u>Example</u>			
A borrower is seeking \$50,000, and his credit prohibits conventional financing. The financial institution determines that the borrower is eligible for SC CAP and requires a 1.5% borrower's premium.			
Borrower	= 1.5% x \$50,000	= \$750	(Borrower's Premium)
Bank	= 1.5% x \$50,000	= \$750	(Lender's Match to Borrower's Premium)
State	= 4.5% x \$50,000	= \$2,250	(State Matches both the Lender & Borrower)
Total Reserve Contribution		= \$3,750	

After an institution has made a portfolio of mature loans under the program, for instance, it might have a reserve equal to 10% of the total amount of that portfolio. In such a situation, the institution could absorb a dollar loss rate of up to 10% on that portfolio and still be completely covered against loss. A key feature of the program is that the full amount in a lender's reserve is available as needed to cover any loss from any of the loans made under the program by that lender.

PROGRAM'S ADVANTAGES

Under SC CAP, there are advantages for both the lender and the borrower. Lenders have no financial obligation to participate and it is available for all eligible lenders within South Carolina. To receive a state match, they are only required to fill out a short form, thus keeping paperwork to a minimum. And finally, a 15 year history of capital

access programs in other states, which the US Treasury has formally tracked, provides a history of coverage on the program.

Borrowers also have a number of benefits. There is flexibility within SC CAP to structure the appropriate financing needed. The borrowers also work directly with the lender, thus eliminating unnecessary approvals from a government agency. Finally, the lender receives matching funds from the state that are contributed to the loan loss reserves and enable the lender to provide the necessary financing.

KEY PERFORMANCE CRITERIA

The legislative purpose of SC CAP is to spur economic development among small businesses through the state's existing business and banking network. Legislation requires this to be done through the following methods:

- Provide financing to small businesses for their business purposes including, without limitation, expansion, start-up, purchase of fixed assets or inventory, facility or technology upgrading, and working capital;
- Limit loans outstanding to one small business borrower to an aggregate balance outstanding of two hundred fifty thousand dollars or a lesser amount the BDC determines, in the exercise of its discretion for the benefit of SC CAP and the small business community at large in South Carolina;
- Limit loans made pursuant to this article and under SC CAP to those that are not guaranteed or otherwise assisted by another governmental entity or program;
- Set aside an amount of at least one and one-half percent but no more than three and one-half percent of the principal amount of the loan, into the loss reserve account; and,
- Obtain from the small business an amount equal to the reserve contribution made by the participating financial institution with respect to the loan.

This report independently evaluates the progress made by the BDC and the economic development impact it has made to the state's small business community.

SOUTH CAROLINA'S GOAL

The state invested \$3 million during the 2006 legislative session with the goal of leveraging \$45 to 67 million in small business lending. It is expected to provide over 1,200 small business loans with an average size of \$40,000. The maximum loan size eligible under this program is \$100,000.

BUSINESS DEVELOPMENT CORPORATION

During 2008, the Business Development Corporation's strategy was to promote SC CAP program directly with key members from South Carolina's banking community. Though many in the banking community understood the legislation, formally introducing and accepting it within the private sector has taken longer than planned. BDC reported all legislatively required information in a timely manner to the Department of Commerce. One of BDC's goals in 2008 is to conduct three workshops for approximately 100 eligible financial lenders in South Carolina. The workshops took place during the week of March 3, 2008 in Greenville, Charleston and Columbia. Each workshop had 30 – 50 attendees.

DEPARTMENT OF COMMERCE

Legislatively, the Department of Commerce is charged to receive quarterly and annual reports from the BDC regarding SC CAP activity. The purpose of the reports is to track investment and job creation with each loan.

OVERVIEW OF 2008 ACTIVITY

In 2008, SC CAP program helped leverage 91 small business loans to entrepreneurs throughout South Carolina. Companies with 50 employees or fewer accounted for almost the entire amount of financing made available by the private lenders, except for one company with 60 employees, and over 96% of the recipients had 20 or fewer employees. Loan amounts totaled **\$4,460,217** from participating banks. Of the \$3 million dollars in state funds \$198,873 were committed to reserve funds. Average loan size during 2008 was \$49,013. Compared to 2007, SC CAP experienced an increase of **32%** in the number of loans offered to state businesses and a 3% increase in the average loan amount. The average loan size during 2008 was **\$49,013**. The table below provides a more detailed illustration of the lending activity during 2008.

Lender	Loan Amount	# Loans	Average Loan Size
First Federal Savings	\$2,503,222	46	\$54,418
First Citizens Bank	\$856,020	25	\$34,241
Congaree State Bank	\$628,660	12	\$52,388
First Savers Bank	\$197,815	3	\$65,938
BB&T	\$34,000	2	\$17,000
SCB&T	\$137,500	2	\$68,750
Bank Meridian	\$103,000	1	\$103,000
Totals	\$4,460,217	91	\$49,013

Twenty-six percent (26%) of the loans issued during 2008 were provided to small minority and/or women-owned business. Average loan size to this segment totaled \$53,625.

SC CAP also assisted existing business in the retention and creation of new jobs within South Carolina. During 2008, the jobs affected by SC CAP totaled 544, with 75 positions related to new job creation. Thus, for every \$2,650 in state reserves applied to SC CAP, it created one new job within South Carolina's business community. The total number of jobs supported, both retained and new, averaged 5.98 jobs per loan.

Cost of financing varied based upon the borrower's risk, the type of financing requested and collateral offered outside SC CAP reserve. A majority of SC CAP loans provided were term loans (59%) with the remainder for lines of credit (41%). The average fixed rate financing carried an interest rate of 7.42% while a floating rate held an average of 6.19%.

Lender Activity

Of the 16 financial institutions enrolled in the program, 7 lenders provided 91 businesses loans that would not have been possible through conventional lending. In terms of both loan volume and loans served, First Federal Savings had the most deal flow in 2008. The total amount of lending provided by First Federal was \$2,503,222 for a total of 46 loans. The loans provided were predominately in the Charleston metropolitan area, which is their primary market.

The remainder of the financing was provided by BB&T, Congaree State Bank, First Citizens Bank, First Savers Bank and SCB&T. First Citizens provided SC CAP financing statewide, including a number of loans to companies within rural regions of South Carolina. Congaree State Bank assisted companies in the Columbia metropolitan area. First Savers Bank utilized the program for small businesses predominately in Lexington County.

All financing terms and conditions are negotiated between the borrower and lender under SC CAP. The average loan amounts and rates vary between institutions and the disparities may reflect the number of SC CAP loans offered in 2008. Line of Credit loans represent over 41% of financing provided with amounts from \$13,000 to \$100,000. Term loan levels were \$5,495 to \$103,000.

GEOGRAPHIC LOCATION OF LOANS

A significant amount of loan activity occurred in South Carolina's metropolitan areas; over 84% of the loans made were in the state's Metropolitan Statistical Areas (MSA). The Berkeley-Charleston-Dorchester MSA's had the greatest occurrence of loan activity with over 53% of all loans made in 2008. Columbia's loan activity accounted for over 23% and the Greenville-Spartanburg MSA's represented over 4%. Areas outside of South Carolina's MSA represented over 16% of SC CAP Loans.

In 2008 Charleston County saw the greatest benefit in SC CAP loan volume. The county experienced \$2,066,546 in loans and Lexington County followed with \$473,275. In the non-MSA territory, loan amounts were up 44% over 2007 totaling \$555,512 during the 2008 calendar year.

JOB RETENTION & CREATION

Outside of providing assistance to small businesses in South Carolina with financing, SC CAP provides a benefit to South Carolinians through job retention and creation. During the 2008 calendar year, SC CAP supported small businesses in the retention of 469 jobs throughout South Carolina. Most of the jobs occurred within the state's MSAs. The greatest benefit occurred in the Berkeley-Charleston-Dorchester MSA with 311 jobs retained which represented over 66% of those retained under the program. The Non-MSA's retention was 61 jobs (13%); the remainder of the state retained 97 jobs (21%).

Job creation, due to the benefit of SC CAP, accounted for 75 new jobs in South Carolina. A total of 43 new jobs (57%) occurred within the Berkeley-Charleston-Dorchester MSA's. The Columbia MSA experienced 23 new jobs (30%), and non-MSA areas accounted for 3 new jobs in South Carolina.

WOMEN & MINORITY-OWNED BUSINESSES

Of the 91 SC CAP loans, 24 (26%) were made to minority and women-owned businesses. Women-owned businesses accounted for 14 of the loans while 10 were to minority businesses and one is classified as both a woman and minority-owned business. Most of the loans occurred within the Charleston MSA, though several deals have occurred in rural South Carolina.

CONCLUSION

The state's investment of \$3 million is currently having a positive benefit to small businesses throughout South Carolina. Though there were only 49 loans made in 2007, 91 loans were made in 2008. Efforts to educate the

public and interest from lenders have helped to raise awareness of the program. A more accurate measure of SC CAP will occur when the program has had a history of three years and greater.

SC CAP is currently focusing on its targeted client: supporting small business lending with an average loan size of approximately \$40,000. Utilization of the program by participating lenders appears stable within its first years. Further tracking of default rates and activity will occur next year, 2009.

Many of the state's benchmarks compare closely with national averages based upon the maximum loan sizes and contribution matches. South Carolina average loan size is below the national average of approximately \$60,000. The national figure may be due to the state maximum loan size of \$100,000 compared to other states with maximum loan sizes of \$250,000.

During the 2008 calendar year, a majority of the deal flow occurred within South Carolina's MSAs however, growth of the program should see it expand across South Carolina with a more geographic balance in future years. This is contingent upon the activity of lenders and the markets they serve. Nonetheless, woman & minority-owned businesses received 26% of the loans statewide.

The Business Development Corporation expanded its educational and recruitment efforts for 2008. Approximately 330 eligible lenders were invited to attend one of three programs in 2008.

The Department of Commerce is encouraged by the activity in SC CAP loans in 2008 based upon the averages in other state programs and hopes to see the program grow even more in 2009.