



# South Carolina Capital Access Program

2009 Program Activity

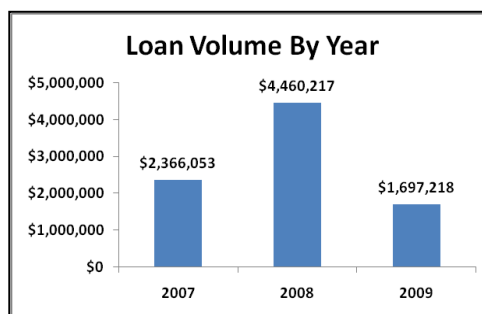
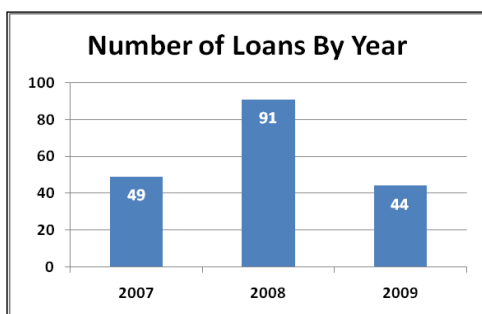
**Business Service, Division**

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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 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 competent small businesses that might not otherwise be able to obtain financing.

This report provides an overview of the South Carolina Capital Access Program and its results for 2009. Figures show the 2009 program assisting 44 small businesses with private financing from South Carolina lenders totaling \$1.7 million.



There were 91 loans made in 2008 and 44 made in 2009. Economic conditions in 2009 have challenged the banking industry. As the flow of capital has decreased, SC CAP remains an important program. The challenge is to educate lenders and the public on the program's benefits. SC CAP is currently focusing on its targeted client base; supporting small business lending with an average loan size of approximately \$38,500. Currently four lenders are actively making loans through the program.

Metropolitan Statistical Area	Loan Amount	# Loans
Berkeley-Charleston-Dorchester	\$851,713	22
Columbia	\$277,984	7
Non-MSA Areas	\$477,521	13
Greenville-Spartanburg	\$90,000	2

Involvement of additional lenders, the growth of loan activity, and geographic balance are important to the success of the program, and a focus of the Business Development Corporation (BDC). Reviewing SC CAP's short history the loan activity in SC CAP in 2007 and 2008 was encouraging and even in these challenging economic times, stronger results are anticipated in 2010. During 2009, a majority of the deal flow occurred within the Berkeley-Charleston-Dorchester MSAs, with significant non-MSA activity. Woman & minority-owned businesses received 20% of the loans statewide.

<b>Total Number of Loans Made</b>	<b>184</b>
<b>Total Amount of CAP Loans Made</b>	<b>\$8,531,693</b>
<b>Total Current Reserve Amount</b>	<b>\$308,518</b>
<b>Total Jobs Created by CAP</b>	<b>198</b>
<b>Total Jobs Retained</b>	<b>911</b>
<b>Average Loan Size</b>	<b>\$44,600</b>
<b>Total Claims Paid</b>	<b>11</b>
<b>Total Amount of Claims Paid</b>	<b>\$330,714</b>

## OVERVIEW OF SC CAPITAL ACCESS PROGRAM (CAP)

### HOW DOES IT WORK?

SC CAP is based on an insuring/portfolio concept. It is fundamentally different from traditional types of guarantee programs such as the Small Business Administration, USDA or other government programs.

The 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 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.

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. 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.

#### Example of Capital Access Loan Transaction:

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	

#### 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

## 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.

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 the following:

- Provide financing to small businesses for their business purposes including: expansion, start-up, purchase of fixed assets or inventory, facility or technology upgrading, and working capital.
- Limit loans outstanding to any one small business borrower to an aggregate balance outstanding of \$250,000 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 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, creating and retaining jobs for new and existing business. It is expected to ultimately 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.

## OVERVIEW OF 2009 ACTIVITY

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In 2009, SC CAP program helped leverage 44 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 52 employees, and over 93% of the recipients had 20 or fewer employees.

Loan amounts totaled **\$1,697,218** from participating banks. Of the \$3 million dollars in state funds \$76,280 were committed to reserve funds. Average loan size during 2009 was \$38,573. Compared to 2008, SC CAP experienced

a decrease of **52%** in the number of loans offered to state businesses and a 23% decrease in the average loan amount. The average loan size during 2009 was **\$38,573**. The table below provides a more detailed illustration of the lending activity during 2009.

Lender	Loan Amount	# Loans	Average Loan Size
First Citizens Bank	\$684,618	20	\$34,230
First Federal Savings	\$676,600	19	\$35,610
SCB&T	\$250,000	4	\$62,500
BB&T	\$86,000	1	\$86,000
<b>Totals</b>	<b>\$1,697,218</b>	<b>44</b>	<b>\$38,573</b>

Twenty percent (20%) of the loans issued during 2009 were provided to small minority and/or women-owned business. Average loan size to this segment totaled \$34,994.

SC CAP also assisted existing business in the retention and creation of new jobs within South Carolina. During 2009, the jobs affected by SC CAP totaled 275, with 76 positions related to new job creation. Thus, for every \$1,003 in state reserves applied to SC CAP, one new job was created within South Carolina’s business community. The total number of jobs supported, both retained and new, averaged 6.25 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 (61%) with the remainder for lines of credit (39%). The average fixed rate financing carried an interest rate of 7.33% while a floating rate held an average of 5%.

## LENDER ACTIVITY

Of the 16 financial institutions enrolled in the program, 4 lenders provided 44 businesses loans that would not have been possible through conventional lending. In terms of both loan volume and loans served, First Citizens Bank had the most deal flow in 2009. The total amount of lending provided by First Citizens was \$684,618 for a total of 20 loans. The loans provided were predominately in the Columbia metropolitan areas and Non-MSA areas.

The remainder of the financing was provided by First Federal Savings, SCB&T and BB&T. First Citizens provided SC CAP financing statewide, including a number of loans to companies within rural regions of South Carolina. First Federal Savings assisted companies in the Charleston-Berkeley-Dorchester metropolitan area. All financing terms and conditions are negotiated between the borrower and lender under SC CAP. The average loan amounts and rates vary between institutions.

The program was also featured in the Columbia Business Monthly as well as the SC Bankers Association publication the Palmetto Banker. The purpose of the articles was to raise awareness within the banking community and the public about the benefits of the program.

## 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 50% of all loans made in 2009. Columbia’s loan activity accounted for 16% and the Greenville-Spartanburg MSA’s represented over 4%. Areas outside of South Carolina’s MSA represented over 29% of SC CAP Loans, up 16% from 2008.

In 2009 Charleston County saw the greatest benefit in SC CAP loan volume. The county experienced \$581,500 in loans and York County followed with \$327,000. In the non-MSA territories, the total loan amount was \$477,521 during 2009.

## **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 2009 calendar year, SC CAP supported small businesses in the retention of 199 jobs throughout South Carolina. The greatest benefit occurred in the Berkeley-Charleston-Dorchester MSA with 166 jobs retained which represented 83% of those retained under the program. The Non-MSA's retention was 11 jobs (6%); the remainder of the state retained 22 jobs (11%).

Job creation, due to the benefit of SC CAP, accounted for 76 new jobs in South Carolina. A total of 52 new jobs (68%) occurred within the Berkeley-Charleston-Dorchester MSA's. Non-MSA areas accounted for 18 new jobs (24%) in South Carolina.

## **WOMEN & MINORITY-OWNED BUSINESSES**

Of the 44 SC CAP loans, 9 (20%) were made to minority and women-owned businesses. Women-owned businesses accounted for 8 of the loans while 1 was to a minority business. Most of the loans occurred within the Charleston MSA, though several deals have occurred in rural South Carolina.

## **CONCLUSION**

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The state's investment of \$3 million is having a positive benefit to small businesses throughout South Carolina. Though there were only 49 loans made in 2007, 91 loans made in 2008, and 44 in 2009. Efforts to educate the public and increase interest from lenders have helped to raise awareness of the program. SC CAP is focused on its targeted client: small business lending with an average loan size of approximately \$40,000. During 2009, a majority of the deal flow occurred within South Carolina's MSAs. However, growth of the program is expanding across South Carolina's non-MSA areas and is showing more geographic balance.