

SOUTH CAROLINA JOBS-ECONOMIC DEVELOPMENT AUTHORITY

BUSINESS CAROLINA, INC.
(Formerly Carolina Capital Investment Corporation)

ANNUAL ACCOUNTABILITY REPORT

FOR

FISCAL YEAR 2002-03

SECTION I – EXECUTIVE SUMMARY

1) OUTLINE OF ACHIEVEMENTS

- a) Execution of Community Development Financial Institution Loan Program, SBA Micro Loan Program and Community Development Corporation outreach.

BCI has held two borrower training sessions and two CDC training sessions during the year. Significantly, the two CDC training sessions were held away from Columbia, one was held in Greer and the other in Bennettsville. This represents a continuing effort to work with people and their organizations in their respective locales. Additionally, eight CDC level one partnership agreements and four CDC level two partnership agreements were consummated. Two additional training sessions occurred at USC Salkehatchie in Allendale. During the year, seventeen Community Development Financial Institution loans were closed totaling \$420,000 and six SBA loans totaling \$165,000.

- b) Policies & Procedures Manual

Pursuant to the on-going mandate by the Board of Directors, several reviews were made of the Policy and Procedures manual resulting in the development of a second draft of the manual. Reviews and updates also occurred with respect to Standard Operating Procedures for Loan Servicing.

- c) Re-Filing Project

Consistent with our desire to affect quality files throughout, a second review and analysis of the files occurred with specific attention devoted to file exceptions. By fiscal year end, all files had been examined thoroughly and appropriate corrections and/or changes made.

- d) Sparak Education and Training

A team from the company that developed the Sparak data base management system came in to acquaint and train key personnel in the utilization of the Sparak System. This system represents a significant improvement in our ability to store all pertinent information as it relates to our loans.

- e) A Credit Administrator with more than thirty-five years of successful banking experience was hired to improve the quality of our loan portfolio.

2) MISSION AND VALUES

The South Carolina Jobs-Economic Development Authority (JEDA), created by an act of the General Assembly by Section 41-43-10 is a quasi-public instrument of the State. The purpose of the Authority is to develop the business and

economic welfare of the State of South Carolina through loans, investments, and the financial promotion of export of goods and services produced within the State. Such efforts are aimed at providing maximum opportunities for the creation and retention of jobs by the small and middle market business sector, thereby allowing the State and its citizens to prosper and enjoy a quality of life unsurpassed.

The purpose of Business Carolina, Inc. (BCI) is to act as a development finance institution to promote the growth of productive private investment and to assist business enterprises that will contribute to the economic development of the State of South Carolina, and to engage in any and all activities necessary to promote that growth. All activities must be in accordance with guidelines established by the Board of Directors and contribute to the State's economic development efforts, thus providing a better quality of life for all its citizens. BCI, a 501 (c)(4) public corporation, administers JEDA's programs through a Memorandum of Understanding.

Values - TIIP

Timeliness – provide the best service as quickly as possible

Integrity – our work is honest and straightforward

Innovative – we provide solutions to financial situations

Personal – conducting business is a relational art and pursuit

3) KEY STRATEGIC GOALS

- a) Return to profitability
- b) Identify loan administration processes and optimize them
- c) Perfect the financial instruments in place
- d) Carry forward the existing five year plan

4) OPPORTUNITIES

- a) Develop the CDFI & SBA Micro Loan program to materially impact our State
- b) Increase loan volume through expansion of SBA 7(a) program
- c) Increase loan volume by becoming a participant in the SBA 504 program
- d) Implementation of the new Branding/Marketing plan to effectively serve more citizens of the State.

Barriers

- a) Inadequate funding support for various loan programs caused largely by an increase in the degree of charge-offs.

b) SECTION II BUSINESS OVERVIEW

1) NUMBER OF EMPLOYEES – 18

2) OPERATION LOCATION(S)

Headquartered in Columbia, South Carolina

Second location – Greenville, South Carolina

3) EXPENDITURES

Base Budget Expenditures

Major Budget Categories	00-01 Actual Expenditures		01-02 Actual Expenditures		02-03 Appropriation Act	
	Total Funds	General Funds	Prelim Total Fund	Prelim General Funds	Prelim Total Funds	Prelim General Funds
Personal Service	\$101,330	0	\$107,369	0	\$101,472	0
Other Operating	\$97,627	0	\$70,511	0	\$154,275	0
Special Items	0	0	0	0	0	0
Permanent Improvements	0	0	0	0	0	0
Case Services	0	0	0	0	0	0
Distributions to Subdivisions	\$4,203,065	0	\$1,558,993	0	\$3,178,124	0
Fringe Benefits	\$21,320	0	\$22,799	0	\$23,750	0
Non-recurring	0	0	0	0	0	0
Total	\$4,423,342	0	\$1,759,672	0	\$3,457,621	0

4) KEY CUSTOMERS

a. Existing Traded Sector Firms – These companies are small to medium sized firms in a variety of traded sector industries – those, which sell goods and services outside of their community – most which are locally owned. These firms are typically medium-growth companies that are more established and provide a tremendous amount of stability in the economy.

b. Potential High Growth Firms, especially technology based – These companies often gain a significant competitive advantage by applying and/or developing technological innovations, although the vast majority of these firms are not in traditional “high-tech” industries. These companies typically start small and grow very rapidly.

c. Rural and Community based firms – This group of companies represents a wide range of business enterprises in rural, low-income, or predominantly-

minority communities. Most of these companies are traditional, non-traded sector businesses and micro-enterprises.

d. Regional and Local Economic Development Organizations – A need exists among local economic development officials, the ten regional councils of governments and community development corporations.

e. Community Development Corporations and the client businesses serviced by SBA MicroLoan Program.

5) **KEY SUPPLIERS**

In order to fund the various financing programs an adequate supply of capital is needed. The following is a list of entities that provide capital to JEDA/BCI.

1. Carolina First Bank (RLF)
2. Department of Housing and Urban Development (CDBG)
3. Department of Energy (DOE)
4. Department of the Treasury (CDFI)
5. Capital Markets (IRB) (7a) (B&I)
6. USDA (IRP)
7. Small Business Administration (MICRO)
8. SCANA (JDLF)
9. Economic Development Administration (PBBF)

6) **DESCRIPTION OF MAJOR PRODUCTS AND SERVICES**

Lending programs currently managed by Business Carolina, Incorporated (BCI).

1. Community Development Block Grant Loan Program
2. The Commercial Loan Program for Rural Communities
3. Intermediary Relending Program
4. Business Carolina Revolving Loan Fund
5. Export Working Capital Guarantee Program
6. Job Development Loan Fund
7. Business & Industry Loan Fund
8. SBA 7(a) Guaranteed Loan Fund
9. Tax-Exempt Industrial Revenue Bond Program
10. EDA Revolving Loan Fund
11. Palmetto Basic Building Fund (PBBF)
12. SBA Micro-Enterprise Loan Fund
13. Community Development Finance Institute (CDFI) RLF

The average loan size for these fourteen programs is \$323,000 and the majority of these loans are made in the non-urbanized portion of the state. In addition to the program descriptions, the following sections provide an example of the typical client for each program.

Community Development Block Grant Loan Program. The CDBG loan program is available to all of for-profit manufacturing, industrial and service

firms, and can be used for any business purpose. This loan program is available in all areas of the state except the entitlement areas of Charleston, Greenville, Lexington (with certain exceptions) and Spartanburg Counties and cities of Aiken, Anderson, Columbia, Florence, Myrtle Beach, Rock Hill, and Sumter. The maximum loan is the lesser of 40% to 75% of project costs based on the firm's location or \$25,000 per job created, up to \$500,000. Fifty-one (51) percent of the jobs must be filled by low to moderate-income individuals (LMI). There is a fifteen-year maximum term for land and building, 10 years for machinery and equipment, and 5 years for working capital. This is also the source of funds for the Commercial Loan Program for Rural Communities (see below).

The Commercial Loan Program for Rural Communities. This loan program is also available to all for-profit manufacturing, industrial, service and retail firms, and can be used for any business purpose. To be eligible, the project must be located in a town or city that is a member of the South Carolina Downtown Development Association and the project cannot be located in a CDBG-restricted area of the state (see program 1 description above). Again, 51% of the jobs must be filled by low to moderate-income individuals. The maximum loan is 85% of project costs or \$25,000 per job created, up to \$500,000. There is a ten-year maximum term for fixed assets and a 5-year term for working capital.

Intermediary Relending Program. The Intermediary Relending Program is designed for all business purposes of for-profit manufacturing, industrial and service firms. This loan program is limited to projects in rural areas and in cities with a population of 25,000 or less. Maximum loan amount is 75% of project costs, or \$250,000. There is a ten-year maximum term for fixed assets and 5 years for working capital. This program was initially capitalized with a \$1.25 million line of credit from the Rural Business -- Cooperative Development Service (formerly known as the Farmers Home Administration) within the U.S. Department of Agriculture.

Business Carolina Revolving Loan Fund. The BCI RLF provides funds for all business purposes of for-profit manufacturing, industrial and service firms and non-profit entities. The maximum loan amount is \$25,000 per job created, up to \$200,000. There is a seven-year maximum term for fixed assets and a 5-year term for working capital. This program was capitalized initially with \$1.0 million and currently utilizes a \$15.0 million line of credit. This is also the source of funds for the Export Working Capital Guarantee Program.

EX-IM Bank Working Capital Guarantee Program. This program is designed for South Carolina businesses involved in international trade, regardless of industry. This program provides a guarantee for short-term working capital loans. The maximum guaranteed amount is \$1,000,000, and the maximum term is 180 days.

Job Development Loan Fund. This program is targeted to finance the acquisition or renovation of fixed assets by for-profit or not-for-profit firms located in a SCANA service territory. SCANA is the state's largest electric

utility. The maximum loan amount is \$5,000 per job created, up to \$50,000. The maximum term on these loans is 5 years. The program was initially funded with \$540,000 from SCANA. BCI markets the program, originates loans, and services the accounts; but SCANA retains ownership of the fund.

Business and Industry Guarantee Loan Program (B&I). This first program instituted by BCI after the completion of the strategic plan was the B&I program to fill the capital gap for traditional traded-sector companies. The B&I program is designed to provide funds for all business purposes: to purchase land and buildings, equipment and machinery, and working capital. This program is available to all for-profit and non-profit businesses that are located in non-urbanized areas of South Carolina. Although the maximum loan amount is \$10,000,000, BCI prefers to make loans under this program in amounts between \$500,000 and \$1,000,000. The terms are 15 years for land and buildings, 10 years for equipment and machinery, and 5 years for working capital.

SBA 7(a) Loan Guarantee Program. BCI continues to offer an SBA 7(a) Loan Guarantee Program to meet the needs of small businesses. Under this program, the SBA guarantees up to 80 percent of the loans of \$100,000 or less, and 75 percent of loans from \$100,000 to \$1,000,000. The financing can be used by start-ups or existing firms for a variety of business purposes:

- ▶ expand or renovate facilities,
- ▶ purchase machinery, equipment, fixtures, and leasehold improvements,
- ▶ finance receivables and augment working capital,
- ▶ refinance existing commercial debt,
- ▶ provide seasonal lines of credit,
- ▶ construct commercial buildings, and/or
- ▶ purchase land or buildings.

Tax-Exempt Industrial Revenue Bond Program. BCI administers this program for JEDA. IRBs are used primarily for financing needs of manufacturing entities. IRBs may be used to finance the acquisition of land, the construction of buildings as well as other improvements to real property; machinery, apparatus, equipment, office facilities and furnishings; interest during construction; and costs of issuance. IRBs often are used to expand existing facilities or acquire new equipment for existing facilities. IRB proceeds cannot be used for inventory or working capital.

Economic Development Administration Revolving Loan Fund. BCI assumed the responsibility of this loan fund in 1998. This revolving loan fund can provide loans as small as \$10,000 and up to \$100,000. These loans can be used to purchase land, buildings, leasehold improvements, machinery, equipment, furnishings and fixtures. Loans are restricted to Fairfield, Richland, and Newberry Counties. There is a maximum term of 12 years on fixed assets, 7 years for machinery and equipment, and 5 years for working capital.

Palmetto Basic Building Loan Fund. This program is funded through the U.S. Department of Commerce, Economic Development Administration, and the Department of Housing and Urban Development. The Palmetto Basic Building Loan Fund may be used to purchase fixed assets such as land, building, leasehold improvements, machinery, equipment, furnishings and fixtures. The program provides funds between \$30,000 and \$350,000. Terms of the loan are 5-10 yrs for equipment, 10 years, or a 10-year balloon with a 20-year amortization for facility acquisition/construction. The types of firms that this program targets are small to mid-sized manufacturing firms that ideally support existing industry in the State.

SBA Micro-enterprise Revolving Loan Fund. BCI utilizes a micro-enterprise loan fund for businesses seeking less than \$35,000 in capital. It has also become increasingly evident that micro-loans in the under \$10,000 category are being demanded by individuals who are seeking self-employment opportunities. The target customers for this product are low-income individuals with little or no credit, assets, or capital, but with the desire and potential skills to be self-employed. The rate is established by BCI. The maximum term is six years. Funds cannot be used to purchase real estate, provide a down payment on a project, or refinance debt. A six-week business-training workshop is a mandatory requirement of the program.

Building Dreams Revolving Loan Fund. Building Dreams is BCI's Community Development Finance Institution (CDFI) program that assists low-income individuals, Community Development Corporations and rural communities throughout South Carolina in building businesses, affordable housing, and community facilities. The program offers a wide range of services to meet the needs of each community by providing loan and investment products, technical support, education, and training. The program funds between \$1,000 to \$50,000. The terms for working capital are 5 to 7 years, machinery and equipment 5 to 10 years and real estate loans for 15 to 20 years (loan interest rate will be reviewed every 5 years). The rate is fixed and does not exceed Prime + 3%. A commitment fee of 1% of the loan amount will be assessed.

Training Component – BCI offers training to local community based organizations that are interested in establishing local revolving loan funds. The areas for training should include: program design and methodology, underwriting techniques for micro loans, handling delinquency, portfolio management, outreach and marketing, the provisions of technical assistance, and fundraising. BCI offers two phases of training. After an organization has entered into a Memorandum of Understanding establishing the partnership, BCI offers the first phase of the training sessions to the local entity.

PHASE I. The first phase will include:

1. how to market the loan programs,

2. screen potential borrowers,
3. assist the client in facilitating the entire loan application process; and
4. provide any technical assistance deemed necessary.

During this phase, BCI will conduct the credit analysis, make the loan decisions, and manage the loan portfolio.

PHASE II. BCI offers the second phase of training to organizations after 6 months to a year (depending on the organization) of establishing the partnership. During this phase, BCI will provide training on how to conduct credit analysis and due diligence. In addition, BCI offers training on portfolio management.

BCI offers Phase II training to existing loan program managers, who are interested in partnering with BCI, but have a well-established program and procedure in place. The Phase II training will build their capacity to provide better retail services at the micro level and to develop “best practices.”

7) **ORGANIZATION STRUCTURE**

BOARD OF DIRECTORS

ELLIOTT E. FRANKS, III - President & CEO

Charles E. Harmon - Credit Administrator
 Charlton L. Whipple - Vice President, Lending
 Susan K. Boyd – Administrative Coordinator, Lending
 Floyd S. Mills, Jr. – Vice President, Lending
 Edward Kesser – Senior Vice President
 Melissa Gaylor – Administrative Coordinator, Lending
 Terry Kiven - Credit Analyst

KEITH R. BLACK – Vice President, Loan Admin. & Compliance
 David B. Roper, Jr. – Assistant Vice President
 John R. Carter – Assistant Vice President
 Todd Lucas - Assistant Vice President

VIRA B. RICHBURG – Vice President, Information Technology

GWENDOLYN B. SUBER – Executive Assistant/Office Manager
 Brandy Johnston – Administrative Assistant II/Procurement
 Bertine K. Knoll - Receptionist/Administrative Assistant

JOHN R. NORTH – Senior Vice President, Finance
 Donna Cook – Senior Bookkeeper

SECTION III – ELEMENTS OF MALCOLM BALDRIGE AWARD CRITERIA

Category 1 - Leadership -- (Background)

Clearly, the mission of both the South Carolina Jobs-Economic Development Authority (JEDA) and Business Carolina, Inc. (BCI) remains that of providing an alternative source of capital for businesses that will either expand their existing facilities or start new enterprises in South Carolina. In either case, the quality of life is significantly impacted through new and better jobs, increased taxes for the respective communities as well as the state as a whole and all of the benefits that flow from the increased revenue - i.e. schools, infrastructure, health care, police protection, etc. For the investment through loans and other services provided by JEDA and BCI, the quality of life for all citizens must be improved.

To accomplish the aforementioned mission(s) we have put in place a number of things namely (1) a vision; (2) a strategic plan, which incorporates that vision and a system of values, that help to guide all staff. (1) As the CEO of both JEDA and BCI, I have a vision for the organization(s), which I have shared with both the Board of Directors and staff. That vision, while it is primarily mine, also reflects the input of board, staff and clientele. Our vision is this: To function as a Development Finance Corporation in an effective, efficient and ethical manner. (2) The Strategic Plan which was developed and adopted in 1996 and updated in 2000 and 2002 is the master blueprint for the organization(s). This plan will be significantly redone in FY 2003-04. It will be discussed in more detail in Section III, Category 2. (3) As an organization, our value system incorporates ethics and ethical behavior, which help to guide our staff's behavior not only toward our clientele but also towards one another. This value system incorporates teamwork, respect for families and an atmosphere of having fun while working.

Category 2 - Strategic Planning

As referenced above in Category I, JEDA and BCI developed and adopted a Strategic Plan in December 1996. This plan, which is the master blueprint for our organizations, has been updated twice with the most recent being in June 2002. The Strategic Plan incorporates a Capital Gap Study, which clearly identifies which areas, and sectors in our state suffer from a lack of capital. The Plan analyzes what JEDA and BCI had in place programmatically in December 1996 and then outlines a number of specific programs, which should be implemented to bridge the capital gaps identified in the study. The Plan not only addresses what programs need to be implemented but also factors in the impact, which each program would have on the fiscal viability of our organization(s).

Our Strategic Plan outlines the program, which does address the larger capital needs of our clientele. That program is the SBA 7 (a) loan program. Programs outlined to address a moderate dollar need are the USDA Intermediary Relending Program (IRP) and the SBA - Low Doc program. Another program outlined to address this moderate dollar need is the SBA 504 program. To facilitate the capital requirements of these programs, we have negotiated and put in place a \$15 million dollar credit facility with one of the state's major banks.

Another key component of our Strategic Plan addresses empowering impoverished communities through working programmatically with Community Development Corporations (CDC's) and other indigenous community groups. Our company has

approached this by becoming an approved SBA micro lender, which allows us to make loans from \$1,000 - \$35,000. A companion effort involved becoming a Community Development Finance Institution (CDFI) and being capitalized (one million dollars) by the Department of Treasury. Loan parameters of this program are \$1,000 - \$50,000 and otherwise mirror the SBA Micro Loan Program. Both the SBA Micro Loan Program and the CDFI Program involve key training elements both for individual businesses and for Community Development Corporations. These programs have been meshed with other programs in place prior to the 1996 study to afford a full complement of loan programs for our target constituencies.

In November 2000 and again in June 2002, the JEDA Board of Directors and the BCI Board of Directors in a two-day retreat, reviewed, assessed and evaluated our Strategic Plan and its success and effectiveness to date. The collective decision was to essentially not add new programs but rather to further develop a number of programs, which had been initiated in the last fifteen to eighteen months.

The major thrust of the June 2002 retreat, however focused on the difficulties encountered in the implementation of the USDA B&I program. At the board's direction, the SBA 7A Program will now address the larger capital needs of both JEDA and BCI. The marketing firm hired by BCI and JEDA continues to handle all needs in this area. The web site has been re-done, quarterly newsletters published and staff training conducted.

Category 3 – Customer Focus

1. Identify Key Customers and Stakeholders

1. Existing traded sector firms
2. Potential high-growth firms
3. Rural and community based firms
4. Regional and local economic development organizations (Economic Development Allies)
5. SC DOC
6. US SBA
7. Statewide Community Development Corporation Membership

2. How do you determine who your customers are and what are their key requirements?

BCI's customer base consists of the traditional traded and non-traded small business and micro-enterprises seeking debt capital between \$10,000 to \$1,500,000 and historically unavailable from traditional banking sources.

3. How do you keep your listening and learning methods current with changing customer/business needs?

BCI participates in educational seminars, trade shows, and conventions, hosted by banking and economic development trade organizations, to stay abreast of current events and methodologies in both respective fields.

4. How do you use information from customer/stakeholders to improve services or programs?

In its efforts to meet the financial needs of its client base, BCI has periodically performed and updated its marketing and operating plan. The sole purpose of the update is to determine if the products and services are meeting the needs of our client base as outlined in the operating plan.

5. How do you measure customer/stakeholder satisfaction?

Critical to the development of the marketing and operating plan update is the input from the existing customer/client base. We extract information provided by them, analyze the data and develop new products or enhance our customer service to meet whatever need the survey deemed may exist.

6. How do you build positive relationships with customers and stakeholders?

Relationships are built over time and through networking. BCI cultivates its customers and stakeholders in that same manner. The officers within the corporation are responsible for marketing the company; and consequently call on these two different stakeholders whenever they are in their region. We are active in the trade organization germane to our primary focus.

Category 4 - Information and Analysis

In June 2002, our agency installed a new loan tracking system, Sparak 3000. This software is a functionally rich account processing system specifically designed to track loan account information. Users can quickly view detailed, reliable information on any account to include property description, collateral and tickler information. It is equipped with a powerful Deluxe Reporter, which allows staff to customize reports to their specific needs. Reports can be printed, sent to computer disk or downloaded for use with PC applications such as Word and Excel. We are in the process of verifying all loan information and customizing the system for our specific reporting needs and lending requirements.

The decision on which operations, processes and systems to measure is directly related to those that are critical to the financial operation and viability of our portfolio. Ongoing monitoring of all loan accounts, in the form of a physical visit, is the responsibility of Loan Administration. This keeps us abreast of any changes or problems that may arise on each account. Internal interim financial statements are prepared each month, and these statements are reviewed and analyzed by both board and staff.

Loan data is collected, maintained and updated constantly to ensure that information is current at all times. Both the Finance Department and the Information Technology Department track all lending activity. This dual tracking creates the checks and balances between the two units, thus ensures that the data is accurate. All information is readily available for decision-making purposes. The internal operations of storing and retrieving data are managed by up-to-date computer equipment and software. Our systems are both

reliable and efficient in supporting our daily workload. Systems are frequently monitored for efficiency and data is stored and backup up daily.

Year-end financial audits are performed by outside accounting firms. The audits include a review of all financial records, technological systems, program requirements, and system processes. In addition to the year-end financial audits, periodic audits are performed on the programs by third-party agencies to ensure that specific program requirements are adhered to and that program records are accurately maintained.

Our financial agency data, lending reports and loan monitoring information are all reviewed and analyzed in the decision making process. This critical information is necessary in that it is used to measure our performance, both past and present, and to develop additional lending programs, policies and regulations that meet the needs of businesses around the State.

The tracking of data allows for specific comparisons (i.e. # loans made; # jobs created per program; # loans per County; average dollar amount per loan; etc.). This information is used to project future goals, to measure program performances, and to determine the effectiveness of lending guidelines. With these types of comparisons, we are able to continuously revise/develop effective lending strategies and/or programs that meet the needs of the State.

Category 5 - Human Resources Focus

1. This facet of the organizational culture continues to be one that embodies a high standard of excellence. This is a point that is stressed from the initial interview and then continuously throughout an individual's tenure with JEDA/BCI. Individual and group conversations are held from time to time with all employees discussing their goals and aspirations in life and how that correlates to utilizing and realizing their full potential professionally.

The formal process is generally held during the discussion of an employee's annual evaluation. In this setting not only are weaknesses discussed but also strengths and how one can improve in all aspects. Various staff luncheons, ice cream socials and birthday celebrations were held to serve as a motivational tool.

2. As a commercial banking entity, we generally attempt to mirror training programs and professional development programs found in the commercial banking community. We also utilize the Office of Human Resource Management, State of South Carolina for guidance and direction in this critical area.

Specific training needs for individuals are often recommended by management and their evaluation of training needs. Frequently individual employees also request training.

3. Our employee performance management system is really a dialogue between supervisor and the individual employee. It is not a "brow-beat" session where only negatives are emphasized. Secondly, where there is an area of strength, employees are praised for their performance and examples given of how they can improve. Where there are weaknesses, care is given to outlining or detailing how an individual employee can improve their performance. When necessary, periodic meetings are held to measure an individual's progress to date.
4. Most of our assessment methods and measures are informal. We are a small organization (18 people) and all employees are asked about their families well being from time to time. When an individual discusses a concern or problem with another, often it is brought to the attention of management and steps and/or actions are taken at that point. Whether it is good or bad, there is an informal network that conveys one or more of an employee's needs or concerns to senior management.
5. The building landlord maintains a safe work environment. Security is provided before, during and after work hours to ensure safety. Cameras are used to monitor areas such as the underground parking lot, the surface parking lot, elevator areas and all streets that surround the office building. Mailboxes and trashcans are located in common use areas for safety. To ensure a healthy work environment, staff is afforded the opportunity to participate in health screenings; to attend conferences focusing on chronic diseases, fitness, health and nutrition programs sponsored by the SC Budget and Control Board, Office of Insurance Services. Each staff member receives a monthly newsletter entitled "Top Health" for health promotion and wellness.
6. The extent of our involvement in the community is through the United Way. Staff is given the opportunity to volunteer their services with the various programs provided by the United Way. There is a 100% monetary contribution from staff to the United Way campaign each year. Also, during the Christmas holiday, monies are solicited from customers, allies, board members and staff to purchase food baskets for needy families in various housing communities in the Columbia area. This endeavor is performed jointly with the Columbia YWCA.

Category 6 - Process Management

The Key Processes for JEDA and BCI are loan marketing, underwriting and servicing. New technology is incorporated by the manager of a unit who realizes the need and effectively proposes the use of technology as a method of increasing efficiency and effectiveness. A cost benefit analysis is conducted to justify the acquisition and need of training for new technology.

Key Processes ensure that Key Performance Requirements are met primarily by historical baseline performance and customer feedback comparisons. The amount of time required to close a loan and make disbursements is gauged against historical norms and customer requirements through an ongoing dialogue of customer expectations and needs.

The Key Process for marketing has been revamped for JEDA/BCI by a marketing firm. This research included an examination of our current customers and an evaluation of competitive services. The existing market was examined and segmented to determine if the products that we offer are the ones that are most needed. A Marketing Strategy has been developed which enables us to provide the greatest service to our State. A major component of the Marketing Strategy has been the identification of underserved areas, the financial institutions that serve those areas and a call plan to approach these financial institutions for partnering. It has been determined that the financial institution lending activity does not function properly in all areas of the State. Our strategy is to use our expertise to make sound lending decisions in those areas where the financial markets do not operate properly. The last component of this strategy will be the training of existing staff to execute this strategy.

Loan Administration has documented about eighty percent (80%) of our procedural processes. The intent is to constantly streamline our standard operating procedures (SOP) and engaging in frank discussions as to the need and effectiveness of each SOP. Timesheets have also been amended to allow for the tracking of how much time it takes to complete a task. This is done with the intent of establishing baseline ties to complete tasks. Baseline comparisons are coming from the banking industry. It is the intent of loan administration to become more efficient by evaluating all SOPs and monitoring time for completion rates as a mechanism to track processes to identify problems for early corrections.

A Credit Administration Officer was recruited in December 2002. This position provides and internal objective review of loans in house and under review for a comprehensive assessment of portfolio quality. The Credit Administration Officer is also charged with reviewing the financial information provided by borrowers to track and assess the financial condition of our customers.

Finance and Information Technology (IT) support Key processes. IT tracks disbursements and receipts of loans, provide amortization schedules for billings and provides a check and balance for finance. Finance ensures adequate cash flow for operations, properly deposits receipts and prepares checks to be disbursed. Due to the reconciling nature of these two areas, these processes are improved by constant communication between IT and finance. If balances do not reconcile, a problem is identified which leads to communication and process review to determine a solution.

Key partner interactions are with our attorneys, other commercial lenders and our economic development allies. Our economic development allies are supported by our participation and leadership in and with professional groups – these include Independent Banker's Association, the SC Banker's Association and the SC Economic Developers Association. The relationships we build with other commercial lenders and our allies result in business participations or even financing a deal that they cannot service. By taking deals that are either too small or too complex, JEDA/BCI has developed a feeder system. This also promotes a symbiotic relationship where everyone gains from the relationship.

Category 7 – BUSINESS RESULTS

Customer Focused Results

We at JEDA/BCI realize that customer service and customer satisfaction are, as in almost any business endeavor, paramount to the success of the organization.

Since we do little or no advertising, satisfied customers are a key source of new business for us. We depend heavily on referrals from state and federal government agencies, the financial community, economic developers and from satisfied customers.

Our lending staff and loan administration staff interact with customers and potential customers on a daily basis and are constantly receiving valuable feedback. We listen to what the customers have to say, good and bad, and react by making adjustments and changes where practical.

We have always tried to be proactive in our ongoing effort to improve customer relations and feel that overall, those relations are excellent. However, we also felt that a survey of our customers by an outside independent firm would be the only way to truly determine/confirm customer feelings.

The survey was conducted during the summer of 2002 and sixteen current customers were randomly selected to participate. The participants were surveyed in several areas to include:

1. The loan approval process
2. The loan administration process
3. Overall impressions of JEDA/BCI

A scale of 1-4 was used with 1 being the best and 4 the worst.

1. Loan Approval Process – This area scored a 1.7. The most favorable marks were in the areas relating to “working with the people” of JEDA/BCI. The only negatives related to paperwork requirements and the time it took to close the loan. The review indicated that in almost every case the complaint was from a customer with a loan in a federal program where the paperwork and time requirements are mandated. All other programs received good marks.
2. Loan Administration Process - scored a 1.6 in the areas reviewed. Accuracy, professionalism and politeness were oft mentioned in the comments by participants.
3. Overall Impressions of JEDA/BCI – Almost all the comments were positive and even though several complained of the paperwork and time requirements they also recognized and appreciated the fact that lending/loan administration processed those loans as quickly as practical.

The overall scores were excellent and reinforced the belief that the relationship between lender and borrower remains on solid footing.

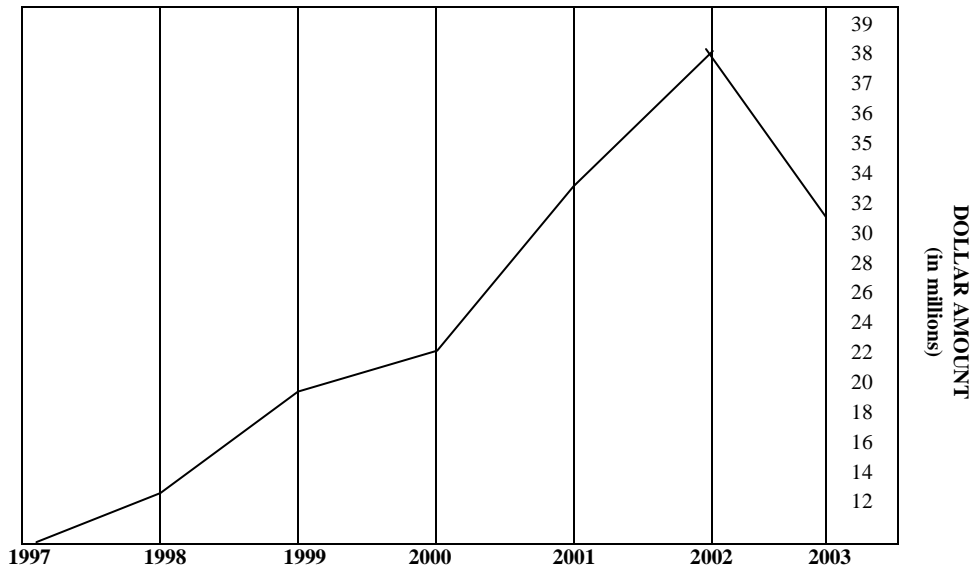
Mission Focused Results

Our primary mission, as stated in the mission statement, is to promote economic growth and new job opportunities in the state of South Carolina primarily through lending to the small and middle market business sector.

In 1996, JEDA/BCI developed and adopted a strategic plan to be used as a blueprint and roadmap to our future. It revealed the specific details of how we were to accomplish our mission beyond 1996. As outlined in the “Strategic Plan Category” of this report the plan pinpointed specific programs that needed to be implemented to meet the growing economic development needs of our state. These new programs would give us the diversity needed to reach a much larger clientele.

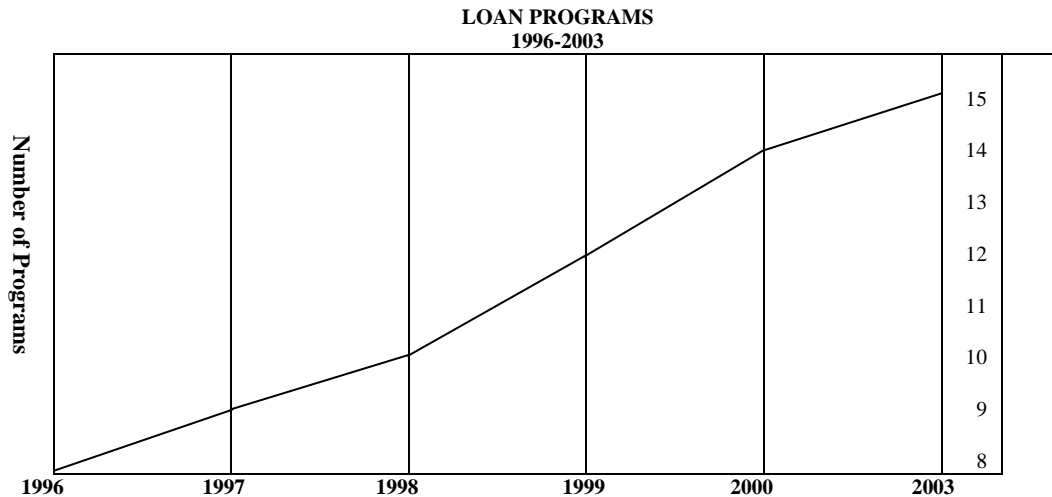
As reflected in the following chart the total dollar amount of lending by JEDA/BCI steadily increased from 1997-2002. However, the economic uncertainty in the nation and the state has translated into a reduction in activity for us as well.

**LOANS OUTSTANDING
1997-2003**



The increase in lending through 2002 would not have been nearly as dramatic without the addition of new funding sources. Since 1996, we have added three new government funding sources (EDA-USDA-SBA) and private funding sources from two of the states major banking facilities. A major part of the private funding is a \$12 million credit facility.

In addition to the increase in the loan volume, we have also increased the number of loan programs offered as depicted in the following chart:

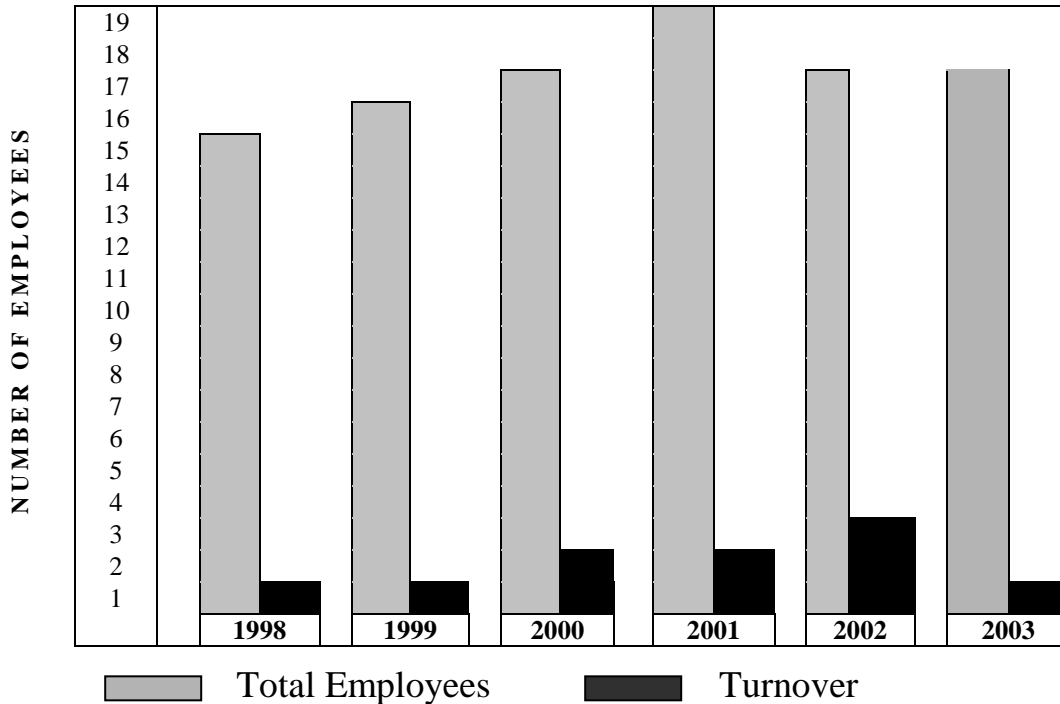


As of June 30, 2003, all the programs outlined in the 1996 strategic plan have been implemented. The array of programs now offered is more than sufficient to reach a full range of customers in our state...from the very small entrepreneur who could use our SBA Micro loan program to borrow as little as \$1,000 to the more sophisticated businessman who would use one of our larger programs to borrow up to the \$1,500,000 level.

Human Resource Focused Results

JEDA/BCI is a relatively small lending entity of eighteen employees. Our size requires a much greater degree of involvement by each employee as compared to the requirements of a larger organization. Each person is a significant “cog” in the operation and, as such, each job correspondingly carries greater responsibility. We demand and receive a higher level of excellence from everyone.

From the very beginning, starting with the initial employment interview, we are very candid. We make sure the candidate is qualified for the job being interviewed for and we make sure he/she understands exactly what the position will entail and require. This initial understanding has been a contributor to our having experienced almost no problem with excessive absenteeism or high turnover. The following chart illustrates the low turnover rate we have enjoyed and shows the actual turnover by year since 1998.



As you can see on the graph above, turnover compared to total employment has been consistently low.

Being small, as mentioned earlier, makes everyone a contributor; it fosters a sense of belonging and it encourages teamwork. This and an occasional “pat on the back” have instilled a sense of pride and enhanced overall good morale.

Unlike banks and other financial institutions that have had significant restructuring and layoffs in the last few years we have steadily added to our numbers since 1996. Of the seventeen-fulltime employees at JEDA/BCI more than half have been here ten years or more. Those type statistics speak well for any organization.

During the periodic employee review much interaction takes place between the parties involved. The results of these reviews indicate that a very high percent of our employees are satisfied with their jobs. Combined with that feeling of belonging we provide a safe, quiet, private professional environment in which to work.

In addition to a comfortable working environment are the many activities we participate in as a total group. We have weekly staff meetings in which all staff participates; we have an annual retreat where informal interaction and new ideas come together; and an outstanding employee is selected each year by his/her peers. This year we have continued to schedule activities to allow employees to “take a break” from the routine--a

midday ice cream party, a lunchtime pizza party, and a covered dish lunch--to name a few.

The statistics and numbers tell us that we are doing the right things and our employees are responding. Even so, the effort is ongoing as we strive everyday to make JEDA/BCI a better place in which to work.

Supplier Focused Results

Most of our “suppliers” are governmental agencies or financial institutions that supply us with capital funds that we, in turn, lend out through our fifteen lending programs.

Over the years, we have enjoyed excellent relations with all of our “funding sources”. As outlined in the “Compliance Section” of this report we must conform to certain regulations and requirements as mandated by the individual funding entities. As a part of the effort to ensure that these requirements are being met, we make our records available at all times for review. These reviews come in the form of monthly, quarterly and annual reporting as well as onsite inspections by various governmental and financial audit teams.

The JEDA/BCI staff has daily contact with almost all fund suppliers, has established, and nurtured an excellent working relationship. The knowledge and trust that has evolved over the years only goes to reinforce the formal ties that have been established.

In the final analysis, the best measure of our success with suppliers can be found in the fact that we have been able to maintain a good working relationship with all of them over the years. In fact, in the fifteen or so years of existence JEDA/BCI has not lost a single funding source, but has added significantly to the original number.

The fact that JEDA/BCI maintains an ongoing line of credit reflects the company’s operating ability and its excellent working relationship with its funding suppliers

Compliance Focused Results

With nine different sources of funding and fifteen lending programs, JEDA/BCI is very aware of and involved in meeting regulatory and compliance requirements.

We are regularly reviewed for compliance by several agencies of the federal government as well as by several private financial institutions. The records and practices of JEDA/BCI are also reviewed and audited by our own outside independent audit firms for compliance. An opinion is required on each audit and, to date, no material problems have ever been reported.

We are required to furnish monthly, quarterly and annual reports of various kinds to our lending banks, the Department of Housing and Urban Development (HUD), the Economic Development Administration (EDA), the US Department of Agriculture (USDA), and the Small Business Administration (SBA). These reports reveal the status of the various funds from an availability and performance standpoint.

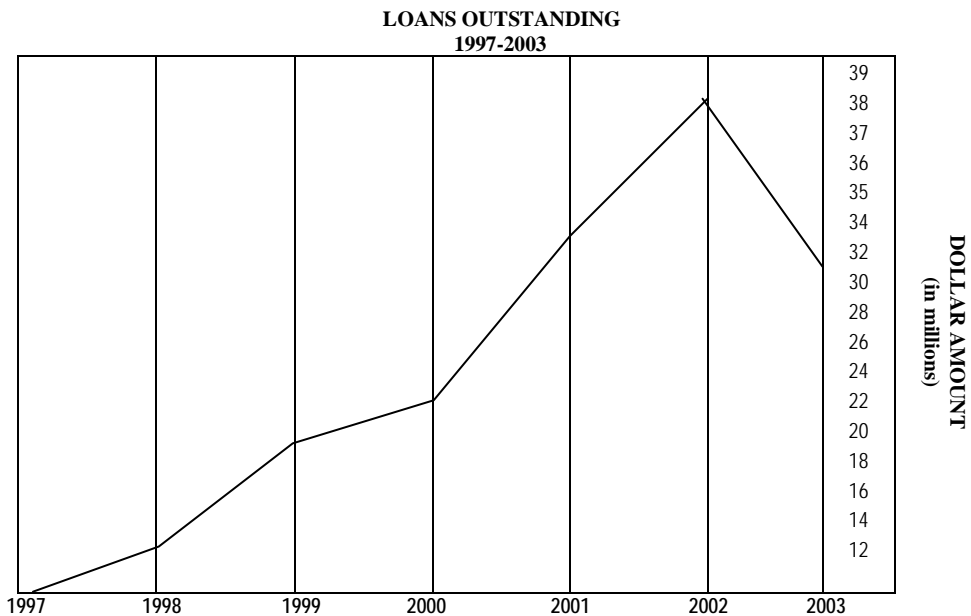
In addition to the written reports, several agencies and banks send audit teams to our office location to review the files of projects in their respective programs. These audits are performed on site and cover all areas of compliance. We welcome these audits and view them as an opportunity to further improve and update our files and processes. In almost every case an “exit” review is conducted by the audit team to discuss the findings and point out specific areas of strength and weakness. Again, we use these reviews as opportunities to improve record keeping and processes.

The many reviews by the various agencies and banks over the years have kept us “on our toes” and shown that we have been up to the task relative to regulation compliance.

Financial Focused Results

The combined JEDA/BCI has steadily improved its financial condition over the years thru an ever-increasing menu of program offerings and sound fiscal management.

We understand the need to protect taxpayer’s dollars and strive each year to increase the combined fund balances, which, in turn, increases the amount of money available to lend. Since 1997, loan volume has increased steadily, with the exception of 2003 as demonstrated by the following chart:

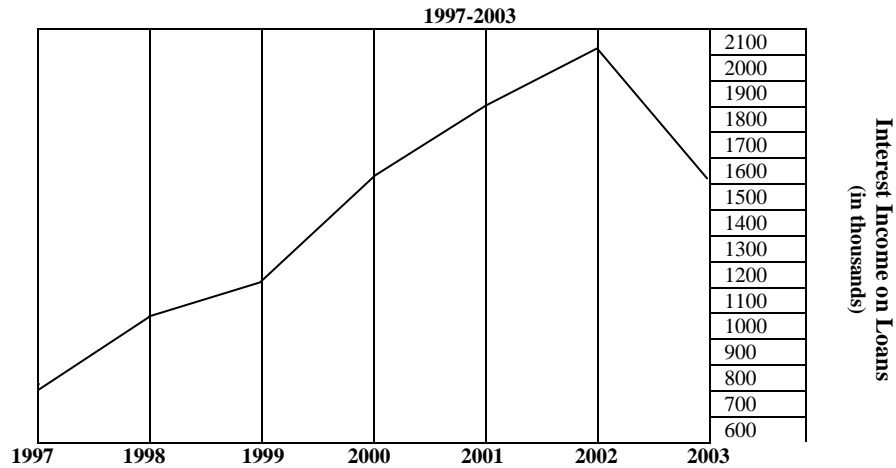


Even though we had a decline in 2003, the growth from \$11.8 million in lending to over \$30.0 million represents an average increase over \$3.05 million dollars per year.

This growth has been steady and planned thru the use of realistic budgeting. We work very closely with our management team and incorporate input from staff and our Boards of Directors to create budgets that realistically meet revenue and expense needs. We abide by the budgets throughout the year and with teamwork and cooperation have been able to hold expenses under budget for a number of years...thus improving our financial condition.

A good measure of our success in lending is reflected in the increasing dollar amount of interest earned on outstanding loans. Per the following chart you can easily see the steady, uninterrupted increase in revenue from lending from 1997-2002. The economic downturn mentioned earlier reduced the loans outstanding in 2003 and had a corresponding effect on loan interest income. We fully expect loan volume and loan interest to return to previous levels as the national and state economies improve.

INTEREST INCOME ON LOANS



The numbers represented in this section reflect the success of JEDA/BCI over the last seven years. This success has not been by accident, but the result of hard work by a dedicated staff and boards.