



# South Carolina Capital Access Program

Review of Program's 2011 Activity

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REVIEW OF PROGRAM'S 2011 ACTIVITY

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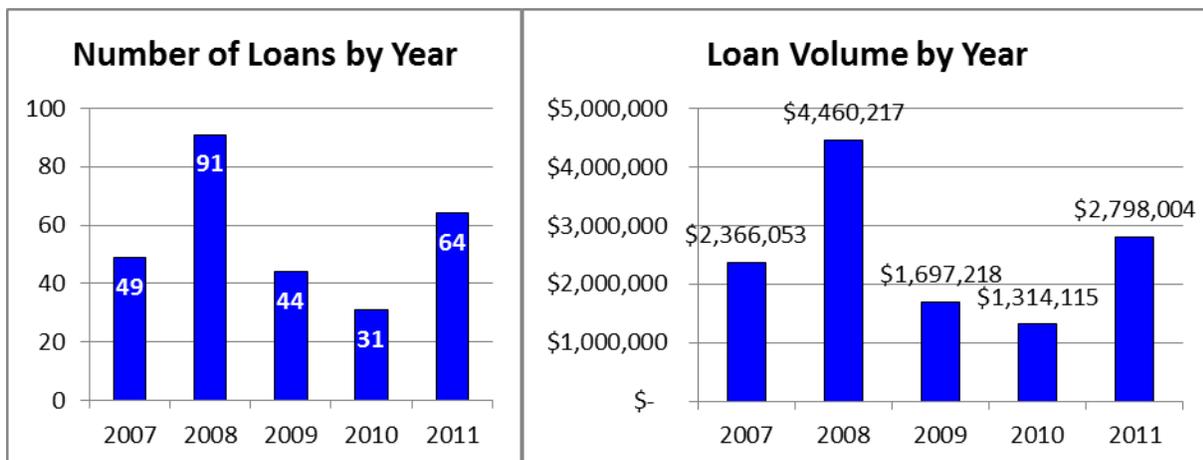
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## EXECUTIVE SUMMARY

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

The state's investment of \$3 million is currently having a positive benefit to small businesses throughout South Carolina. Since the program's inception in 2007, 279 loans for a total of \$12,643,813 have been made. Utilization of the program by participating lenders was stable within its first years, however the number of participating financial institutions has dropped off along with overall loan totals.

This report provides an overview of the South Carolina Capital Access Program for 2011. As shown here the program served 64 small businesses with financing from South Carolina lenders totaling roughly \$2.8 million.



The number and volume of loans more than doubled in 2011 compared to 2010. With 64 loans totaling \$2.8 million, this volume also exceeds 2009 figures, approaching the program high achieved in 2008. With only three banks participating in the program in 2010, four banks made CAP loans in 2011. This additional bank made 34 loans which, as a single lender, surpassed last year's total number of loans as well as the total number of loans made by the other three lenders combined in 2011.

While the flow of capital from the baking industry has generally decreased SC CAP remains a viable program for lenders and companies. It has been a continuing challenge to educate lenders and the public on the program's benefits. SC CAP is currently focusing on its targeted client; supporting small business lending with an average loan size of approximately \$43,719. Currently four lenders are actively making loans through the program.

The vast majority of loan activity continues to occur in the larger markets. In 2011, the sixty-one loans were in urban counties, accounting for 95% of all loans. Three loans totaling \$161,539 were made in rural counties.

## OVERVIEW OF SC CAPITAL ACCESS PROGRAM

### HOW DOES IT WORK?

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

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 Business Development Corporation of SC (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 they made under the program.

#### **Participating Financial Institutions**

1st Federal of South Carolina, FSB  
 Ameris Bank  
 Bank of Clarendon  
 BB&T  
 The Citizens Bank  
 Carolina Alliance Bank  
 Congaree State Bank  
 First Citizens Bank  
 First Community Bank  
 First Federal of Charleston  
 Harbor National Bank  
 NBSC  
 The Palmetto Bank  
 South Carolina Bank & Trust, NA  
 South Carolina Bank & Trust - Piedmont

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.

**Table 1: Example of Capital Access Loan Transaction**

<b><u>Example</u></b>			
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

## 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. A 15 year history of capital access programs in other states, which the US Treasury has formally tracked, documents the success of these programs. For more information on this report, refer to the US Treasury web site, <http://www.treasury.gov/press-center/press-releases/Pages/ls1131.aspx>.

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 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.

## 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.

## DEPARTMENT OF COMMERCE

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

## OVERVIEW OF 2011 ACTIVITY

In 2011, SC CAP program helped leverage 64 small business loans to entrepreneurs throughout South Carolina. Companies with 50 employees or fewer accounted for the entire amount of financing made available by the private lenders. This is a significant increase over the 31 loans offered in 2010, more than doubling that rate.

Loan amounts totaled **\$2,798,004** from participating banks. Compared to 2010, the amount of loans grew significantly by **113%**. Of the \$3 million dollars in state funds **\$125,112** were committed to reserve funds. The average loan size also increased during 2011 to **\$43,719** compared to \$42,391 in 2010, an increase of 3%. The table below provides a more detailed illustration of the lending activity during 2011.

Lender	Loan Amount	# Loans	Average Loan Size
First Citizens Bank	\$486,653	14	\$34,761
First Federal Savings	\$478,600	11	\$43,509
SCB&T	\$274,411	5	\$54,882
The Palmetto Bank	1,558,340	34	45,834
<b>Totals</b>	<b>\$2,798,004</b>	<b>64</b>	<b>\$43,719</b>

Thirteen loans or twenty percent (20%) of the loans issued during 2011 were provided to small minority and/or women-owned business. Average loan size to this segment totaled \$37,477.

SC CAP also assisted existing business in the retention and creation of new jobs within South Carolina. During 2011, SC CAP impacted 354 jobs; 84 new jobs were created and 270 jobs were retained. Thus, for every \$1,489 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 5.53 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 (62%) with the remainder for lines of credit (38%). The average fixed rate financing carried an interest rate of 6.37% while the floating rate averaged 5.87% interest. All financing terms and conditions are negotiated between the borrower and lender based on each institution's internal policy.

### LENDER ACTIVITY

Of the 15 financial institutions enrolled in the program, 4 lenders provided 64 businesses loans that would not have been possible through conventional lending. In terms of both loan volume and loans served, The Palmetto Bank had the most deal flow in 2011. The total amount of loans provided by The Palmetto Bank was \$1,558,340 for a total of 34 loans. The loans provided were predominately in the Upstate region (79%) and the York region (21%).

The remainder of the financing was provided by First Citizens, First Federal Savings and SCB&T. First Citizens provided loans to businesses throughout the state. SCB&T provided SC CAP financing to companies in York county. First Federal Savings assisted companies in the Charleston and the Pee Dee region.

## GEOGRAPHIC LOCATION OF LOANS

The following table reflects loan activity by county. Sixty-one loans were made in urban counties, accounting for 95% of all loans. Three loans totaling \$161,539 were made in rural counties. Spartanburg County saw the greatest benefit in SC CAP loan volume with twelve loans totaling \$496,374.

County	Loan Amount	# Loans
Anderson	\$ 361,332	6
Berkeley	\$ 180,374	3
Charleston	\$ 248,600	5
Cherokee*	\$ 46,539	1
Darlington*	\$ 40,000	1
Dorchester	\$ 30,000	1
Fairfield*	\$ 75,000	1
Florence	\$ 34,350	2
Greenville	\$ 235,675	6
Greenwood	\$ 60,800	1
Horry	\$ 60,000	2
Lancaster	\$ 106,500	2
Lexington	\$ 90,208	2
Oconee	\$ 176,625	3
Pickens	\$ 68,217	3
Richland	\$ 26,000	2
Spartanburg	\$ 496,374	12
York	\$ 461,411	11
<b>Total</b>	<b>\$2,798,005</b>	<b>64</b>

Loan activity in the three larger urban areas comprised of Charleston, Columbia and Greenville, was responsible for the 69% of the total loans made in 2011. Forty-four loans totaling \$1,974,205 were made in these areas. Fifteen loans (24%) for a total of \$662,261 were made in York-Lancaster and the Florence-Myrtle Beach region, with the majority in York County. Three loans (5%) were made in rural counties for a total of \$161,539.

Loan Activity by Region	Loan Amount	# Loans
Charleston/Lowcountry	\$ 458,974	9
Columbia/Midlands	\$ 116,208	4
Greenville/Upstate	\$ 1,399,023	31
York-Lancaster	\$ 567,911	13
Florence	\$ 34,350	2
Myrtle Beach	\$ 60,000	2
Rural Counties	\$ 161,539	3

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\* Rural County

## 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, information that participating companies are required to self-report. During the 2011 calendar year, SC CAP supported small businesses reported the retention of 270 jobs throughout South Carolina. Job creation, due to the benefit of SC CAP, accounted for 84 new jobs in South Carolina.

## WOMEN & MINORITY-OWNED BUSINESSES

Of the 64 SC CAP loans, 13 (20%) were made to minority and women-owned businesses. Women-owned businesses accounted for 12 of the loans while one was to made a minority business

## CONCLUSION

The economic climate has affected SC CAP loan activity resulting in a decline in the number of loans being made since its peak in 2008. There are two areas contributing to this decline. First, banking regulators have imposed stricter guidelines on lenders. Company tax returns once sufficed as adequate financial information. However, banks are now looking for more detailed financial information, in some cases audited statements. Many small businesses may not have adequate financial reports.

Secondly, the pool of quality loans has diminished. Banks report that the slow economy has impacted sales revenues for existing companies, increased competition in certain sectors, and is the cause for considerable scrutiny of start-up businesses.

SC CAP is currently focusing on its targeted client: supporting small business lending with an average loan size of approximately \$40,000. Many of the state's benchmarks compare closely with national averages based upon the maximum loan sizes and contribution matches. South Carolina's average loan size is below the national average of \$60,000, however our maximum loan size of \$100,000 is well under that of most other states, which have a maximum loan size of \$250,000.

Increase loan activity in 2011 is encouraging compared to the declining numbers experienced in 2009 and 2010. The aggressive participation of The Palmetto Bank with 34 loans this past year directly resulted in this year's growth. This increase points to the opportunity that exists when more banks participate in the program. Currently only four banks out of 15 enrolled in the program are making SC CAP loans. The Business Development Corporation actively promotes the benefits of SC CAP to all enrolled banks through its website and the SC Bankers Association and its publication, *The Palmetto Banker*.