



SSBCI
State Small Business Credit Initiative
Policies and Procedures Manual

Iowa Capital Access Program

Program Guidelines

I. Program Overview

In the Small Business Credit Initiative Act of 2010, Congress appropriated funds to Treasury under the State Small Business Credit Initiative (SSBCI) to be allocated and disbursed to States that have created programs to increase the amount of capital made available by private lenders to small businesses. The Iowa Capital Access Program (ICAP) was created by the Iowa Economic Development Authority (IEDA) and is administered by the Iowa Business Growth Company (IBGC). ICAP is modeled after the North Carolina Capital Access Program and provides portfolio insurance for business loans based on a separate loan loss reserve fund for each participating financial institution.

ICAP is designed to encourage Lenders, credit unions, and Community Development Financial Institutions (the "Lenders") operating in Iowa to make loans that they otherwise would not make due to a riskier profile that falls just outside the Lender's normal underwriting standards. Examples include:

- Higher loan to value (LTV) loans
- Credit scores slightly below standards
- Insufficient collateral
- Insufficient cash flow coverage
- Businesses entering new markets
- Start-up or early stage businesses

The Program offers a flexible tool that can benefit Lenders by:

- Expanding the small to middle market business customer base
- Providing credit enhancement for non-profit loans and lines of credit
- Limiting exposure to losses through a reserve fund
- Enhancing Community Reinvestment Act (CRA) efforts
- Putting all loan decisions in the hands of the Lender, without any approval required of the IBGC or other body
- Allowing the entire loan or only a portion to be enrolled in the Program

II. Lender Participation

1. To participate in ICAP, a Lender executes the ICAP Lender Participation Agreement and the Designation of Lender Contracts by:

Adding the Lender's name and the date to the front of the Agreement and having a senior officer of the Lender execute the Agreement on the last page.

Designating primary and secondary ICAP contacts.

Designating a primary contact to answer any banking questions.

Designating a primary contact for publicity/public relations.

2. The Lender establishes a Reserve Fund Account with the IBGC as the account holder for both Borrower/Lender deposits and matching ICAP deposits.

The IBGC is the account holder

Account must be an interest bearing, demand deposit account, which will not incur service charges.

Lender provides signatures and card and account resolution

Lender provides ACH enrollment information.

Lender provides online account access.

III. How the Program Works

ICAP uses a “loan portfolio insurance” concept. Each participating Lender builds a separate loan loss reserve (the “Reserve Fund”) through fees collected from the Lender/Borrower and matched by ICAP. The performance of any participating Lender will not affect the performance of others. Furthermore, the Reserve Fund is not specific to individual loans, but is used to offset all or part of a loss on any enrolled loan in a participating Lender’s ICAP loan portfolio.

A. Enrollment Fees

- Enrollment Fees are set by the participating Lender at the time of loan enrollment, based on the Lender’s perceived level of risk for the loan. The total amount paid by the Borrower and the Lender shall not be less than 3% of the enrolled amount of the loan, and shall not be greater than 7% of the enrolled amount of the loan. The Lender must pay into the Reserve Fund an amount at its discretion, which may be recovered from the Borrower.
- Within 10 business days of the time the Lender notifies the IBGC of the loan enrollment, a matching premium is deposited by the IBGC into the Lender’s Reserve Fund.
- The more frequently the Lender utilizes the Program, the larger the Reserve Fund becomes and the greater the protection the Fund affords by spreading the risk over a larger portfolio of loans.

B. Eligible Lenders

Any insured depository institution, insured credit union, or community development financial institution (CDFI) is eligible for participation in the Program. All participating Lenders must execute an ICAP Lender Participation Agreement and must provide an interest-bearing checking account to serve as the Reserve Account.

C. Eligible Borrowers

To be considered eligible a business must meet the following criteria:

1. Use of proceeds is for a business purpose,
2. The business is located in one of Iowa’s 99 counties,
3. Permissible Borrowers include corporations, partnerships, joint ventures, sole proprietorships, state-designated charitable, religious, or other non-profit or eleemosynary institutions, government-owned corporations, consumer and marketing cooperatives, and faith-based organizations provided the loan is for a "business purpose" as defined below.
4. The Borrower is an entity with 500 or less employees;

D. Eligible and Ineligible Loan Uses

The loan proceeds must be used for a "business purpose."

Eligible loan uses include, but are not limited to:

- Start up costs
- Working Capital
- Business Acquisitions and Expansions
- Franchise Financing
- Equipment Loans
- Inventory Financing
- Commercial Real Estate Acquisitions
- Construction

The loan proceeds **cannot be used** to:

- a. repay delinquent federal or state income taxes unless the Borrower has a payment plan in place with the relevant taxing authority; or
- b. repay taxes held in trust or escrow, e.g. payroll or sales taxes; or
- c. acquire or hold passive investments such as commercial real estate; or
- d. reimburse funds owed to any owner, including any equity injection or injection of capital for the business' continuance; or
- e. purchase any portion of the ownership interest of any owner of the business.

The Borrower **cannot be**:

- a. an executive officer, director, or principal shareholder of the Lender; or
- b. a member of the immediate family of an executive officer, director, or principal shareholder of the Lenders; or
- c. a related interest of an such executive officer, director, principal shareholder, or member of the immediate family.

For the purposes of these three Borrower restrictions, the terms "executive officer", "director", "principal shareholder", "immediate family", and "related interest" refer to the same relationship to a Lender as the relationship described in part 215 of title 12 of the Code of Federal Regulations, or any successor to such part.

- d. a business engaged in speculative activities that develop profits from fluctuations in price rather than through normal course of trade, such as dealing in commodities futures, unless those activities are incidental to the regular activities of the business and part of a legitimate risk management strategy to guard against price fluctuations related to the regular activities of the business; or
- e. a business that earns more than half of its annual net revenue from lending activities; unless the business is a non-Lender or non-Lender holding company certified as a Community Development Financial Institution; or
- f. a business engaged in pyramid sales, where a participant's primary incentive is based on the sales made by an ever-increasing number of participants; or
- g. a business engaged in activities that are prohibited by federal law or applicable law in the jurisdiction where the business is located or conducted. (Included in these activities is the production, servicing, or distribution of otherwise legal products that are to be

- used in connection with an illegal activity, such as selling drug paraphernalia or operating a motel that knowingly permits illegal prostitution); or
- h. a business engaged in gambling enterprises, unless the business earns less than 33% of its annual net revenue from lottery sales.
 - i. No principal of the borrowing entity has been convicted of a sex offense against a minor (as such terms are defined in section 111 of the Sex Offender Registration and Notification Act (42 U.S.C. 16911)). For the purposes of this certification, "principal" is defined as "if a sole proprietorship, the proprietor; if a partnership, each managing partner and each partner who is a natural person and holds a 20% or more ownership interest in the partnership; and if a corporation, limited liability company, association or a development company, each director, each of the five most highly compensated executives or officers of the entity, and each natural person who is a direct or indirect holder of 20% or more of the ownership stock or stock equivalent of the entity."

E. Eligible Loan Terms and Structure

The ICAP gives Lenders significant flexibility in structuring the loans they enroll under the Program. The Lender decides which eligible loans to cover under the Program as well as the interest rate, premium level, term, collateral requirements, and any other conditions of the loan.

Although the Lender may have a longer note maturity and amortization period, the maximum term the loan is covered under ICAP is ten (10) years from the date of enrollment for term loans, and seven (7) years from the date of enrollment for credit lines. In any event, maturities should match the Borrower's ability to repay and the life of the asset purchased. Lenders may extend lines of credit under the Program so long as the maximum amount of the line is enrolled under the Program. ICAP will not provide a matching fee for line renewals or loan extensions, except when additional principal is advanced.

F. Loan Refinances

1. **Refinancing outstanding loans with the Lender that were not originally enrolled under the Program are ineligible for enrollment.** Additional principal beyond the refinanced amount is **eligible** for enrollment.
2. In the event that **an enrolled loan is refinanced or restructured and no additional principal is advanced**, the enrolled loan may remain enrolled in the Program up to the ten (10) year limit with no additional premiums payable by either the Lender/Borrower of the ICAP . In this case, it is not necessary to file an additional enrollment form with ICAP.
3. In the event that **an enrolled loan is refinanced and additional principal is advanced**, the Lender may file an enrollment form and pay an enrollment fee on that portion of the loan that is in excess of the original loan enrollment amount if the Lender wishes to have that additional principal amount covered under the Program. The additional principal can be enrolled up to the ten (10) year limit.

G. Maximum Enrolled Loan Amount

The maximum aggregate outstanding loan amount(s) that may be enrolled for any single Borrower, or any common enterprise in which the Borrower has an ownership interest, is **\$500,000**.

IV. Program Procedures

A. Processing and Enrolling an Eligible Loan in ICAP

Prior to enrolling a loan in ICAP, the participating Lender must:

1. Determine that the Lender desires to use ICAP as the result of the proposed loan's riskier profile.
2. Review with Borrower the "Borrower Certification" (Exhibit 1) and "Notice to Borrower" (Exhibit 2).
3. Approve the loan. (The IBGC does not participate in the approval decision.)
4. Establish the premium level, and calculate the enrollment fee based on the amount of the loan the Lender wishes to enroll. (See also "Enrolling a Portion of the Loan" below.)
5. Collect the enrollment premium from the Borrower or add it to the loan.
6. Deposit the enrollment fee into the Lender's Reserve Account.
7. Obtain the Borrower's signature and other required information on the "Borrower's Certification" (see Exhibit 1).

To process and enroll an eligible loan under ICAP, the participating Lender submits to IBGC:

1. Completed "Borrowers Certification" (Exhibit 1) and
2. Completed "Loan Enrollment Form" (Exhibit 3) and
3. Proof (deposit receipt) that the enrollment fee has been deposited.

Submit Copies of the required documentation to the IBGC by one of the following methods:

Email: jim@iowabusinessgrowth.com

Fax: 515.223.5017

Mail: Iowa Business Growth Company
ATTN: Jim DePauw
5409 Northwest 88th Street, Suite 100
Johnston, IA 50131

When the IBGC receives an ICAP Enrollment Form:

- The IBGC reviews the form for completeness; and
- Transfers electronically the matching premium amount into the Reserve Fund account at the participating Lender via ACH.

B. Enrolling a Portion of a Loan:

In situations where Lenders feel marginally comfortable with a prospective loan, the Lender may enroll under the Program only that portion of the loan that it deems more risky. In this case, premiums are paid only on the portion of the loan the Lender chooses to enroll.

In the event of default, the Lender could recoup up to the enrolled amount of principal loss on the loan, plus accrued interest on that portion and one half documented out-of-pocket collection expenses.

By selecting this alternative, the Lender and the Borrower reduce the Borrower's costs by reducing the premium payment that must be deposited into the Reserve Fund account and excess premiums are not paid for coverage that is not needed.

C. Filing of Program Reports

For each calendar year, the Lender is to submit to the IBGC within 30 days of the year-end a report listing Borrowers and outstanding balances of all Enrolled Loans as of the end of that preceding year. In computing the aggregate outstanding balance of all Enrolled Loans, the balance of any loan shall in no event be considered to be greater than the enrolled amount, and, in the case of lines of credit, the outstanding balance shall be considered to be the enrolled line amount. Such report must indicate the following:

- (a) Name of Borrower
- (b) Amount of Loan
- (c) Amount of Enrolled Loan
- (d) Type of Loan (Term or Line)
- (e) Outstanding Balance of Loan
 - a. If term loan - show the lesser of the outstanding balance or the enrolled loan amount and the enrollment date.
 - b. If line of credit - show the enrolled line amount and the maturity date.

Submit the Lender statements and enrolled loan reports to the IBGC by one of the following methods:

Email: jim@iowabusinessgrowth.com

Fax: 515.223.5017

Mail: Iowa Business Growth Company
ATTN: Jim DePauw
5409 Northwest 88th St, Suite 100
Johnston, IA 50131

D. Maintenance of the Reserve Fund

A separate Reserve Fund is maintained for each Lender participating in the Program and the enrollment fees and matched premiums in that account are completely dedicated to covering losses on loans enrolled by that Lender. All funds credited to the Reserve Fund are solely controlled by the IBGC and are owned by the IBGC.

1. Location of the Reserve Fund:
 - For efficiency and administrative convenience, the Reserve Fund for participating Lenders will be established in the name of the IBGC and maintained at that Lender or other designated insured depository financial institution.
 - Reserve Fund accounts are to be interest bearing, and participating Lenders may not charge the IBGC for any fees related to ICAP loan transactions or for the maintenance of the Reserve Fund account.
 - Online access to the Reserve Fund account will be granted if available.
 - The IBGC will monitor Reserve Fund account activities and will deposit the IBGC's matching premium contributions to the Reserve Fund.
2. Uses of Accrued Interest:
 - Interest income earned on the Reserve Fund will be credited to the account.

- The IBGC may withdraw at any time up to 50% of all interest or income credited to the Reserve Fund. The IBGC will utilize these funds to offset the administrative costs associated with operating the Program or to fund future matching fees.

3. Excess Reserve Fund Withdrawal Procedures:

- If for 12 consecutive months the amount in a Lender's Reserve Fund continuously exceeds fifty percent (50%) of the amount of that institution's existing ICAP loan portfolio, the IBGC may withdraw any excess funds within this reserve so that the amount remaining in the reserve will be equal to fifty percent (50%) of the outstanding aggregate balance of existing ICAP loans.

EXAMPLE: If a Lender's outstanding balance of enrolled loans is \$1,000,000 and the Reserve Fund balance is \$600,000 for 12 consecutive months, then the IBGC can withdraw \$100,000 to offset administrative costs or to fund future matching funds.

- If a participating Lender effectively discontinues using the Program and no additional loans are being enrolled, the IBGC will make withdrawals against the Reserve Fund as described above until all loans enrolled by the Lender have been repaid. At that time, all remaining funds in the Reserve Fund account will be withdrawn by the IBGC.
- If a Lender formally terminates its participation in the Program, the 12-month period noted above will not apply and the IBGC may withdraw excess funds from the reserve immediately

4. Reserve Fund Account Statement:

- The Lender is to submit to the IBGC a monthly account statement which reflects all activity for the period under the Reserve Fund within 10 days of the preceding month-end.

E. Filing a Claim under the Program

When a loan enrolled under the Program defaults, the participating Lender shall determine when and how much of the enrolled loan to charge off. The Lender may then file a loss claim form (see Exhibit 4) within 30 days of the charge-off of any part, or all, of the enrolled loan. The Lender is entitled to recover principal, accrued interest and any reasonable collection expenses related to the charge-off loan. The Lender should retain documentation in its files evidencing all expenses for which a claim is filed.

Should the Lender file two or more claims contemporaneously, and if there are insufficient funds in the Reserve Fund account to cover the entire amount of the claims, the Lender may designate the order of the priority in which the IBGC should pay the claims from the Reserve Fund account.

Two Simple Steps to Participate in ICAP

Step 1

The Lender and the IBGC complete and execute the Lender Participation Agreement.

- Lender designates a primary contact to answer any banking questions.
- Lender designates a secondary contact for contact for publicity/public relations.
- IBGC designates primary and secondary contacts.

Step 2

A Reserve Fund Account is established.

- IBGC is the account holder.
- Account must be an interest bearing, demand deposit account, which will not incur service charges.
- Lender provides signature card and account resolution
- Lender provides ACH enrollment information.
- Lender provides online account access.

Five Simple Steps to Loan Enrollment

Step 1	Step 2	Step 3	Step 4	Step 5
Initial Step	Prior to Closing	At Closing	After Closing	Final Step
<p>-Determine if ICAP should be used for the loan</p> <p>-The borrower has a profile just outside of normal underwriting</p> <p>-All loan decisions are made by the lender i.e. interest rate, term, collateral requirements</p>	<p>-Explain to borrower that the loan will be approved if placed into ICAP</p> <p>-Borrower certification form</p> <p>-Notice to Borrower</p> <p>-Determine whether to enroll the entire loan or a portion of the loan</p>	<p>-Collect fee and Borrower's forms</p> <p>-Determine and collect Borrower and Lender fee (3% to 7%) -can be added to the loan.</p> <p>-Complete the Borrower's certification form</p>	<p>-Complete loan enrollment form and deposit fees into reserve account</p> <p>-Complete loan enrollment form</p> <p>-Copy or scan the deposit receipt for the Lender and Borrower</p>	<p>-Submit forms and deposit receipt to IBGC</p> <p>-Upon receipt of forms and deposit receipt, IBGC checks for completeness , then transmits matching fees to the Reserve Fund Account</p>

F. Payment of a Claim

Notwithstanding any violation of the Agreement provisions by the Lender, upon receipt by the IBGC of a Claim filed by the Lender, the IBGC shall promptly pay, from funds in the Reserve Fund, the Claim as submitted, except that the IBGC may reject a Claim when the representations and warranties provided by the Lender were known by the Lender to be false when the loan was enrolled.

If there are insufficient funds in the Reserve Fund to cover the entire amount of the Lender's Claim, the IBGC shall pay to the Lender an amount equal to the current balance in the Reserve Fund. Upon receipt of a completed Capital Access Special Claim Form attached as Exhibit 5, or a modified form as specified by the IBGC, the IBGC shall, out of any future funds that are transferred into the Reserve Fund Account on subsequently Enrolled Loans, pay the remaining balance of the Claim upon a finding that the partial payment has not satisfied the Claim, and that the remaining balance is not greater than seventy-five percent (75%) of the balance in the Reserve Fund Account at the time the IBGC receives the Special Claim Form.

G. Collection Rights and Recoveries Subsequent to a Claim

Participating Lenders may proceed with the claim process before exercising their collateral rights and taking legal action against the Borrower on a charged-off loan. In any event, should the Lender recover any amounts from the Borrower subsequent to the payment of a claim, the Lender must promptly return these monies, less any amount needed to cover out of pocket expenses incurred, to the IBGC for deposit in the Reserve Fund account.

H. Liability

All loans enrolled under the Program are private transactions between the Borrower and the Lender. The IBGC's responsibility lies in administering the Program and providing matching premium payments on ICAP loans. The IBGC is not a party to the loans and disclaims any liability in connection with the loans enrolled under ICAP.

By executing the Lender Participation Agreement, each participating Lender represents that it understands the regulations and guidelines of the Program and warrants that it will comply with them as Program loans are enrolled. In addition, the Lender acknowledges that the IBGC bears no liability to the Lender beyond the funds that are deposited into the Reserve Fund account

Determining Lender And Borrower Fees

Under SSBCI guidelines it is required that both the Lender and the Borrower pay a reserve fee. However, the Lender can recover this fee from the Borrower. This is very similar to the Lender fee charged for SBA 504 loans. The amount of the fee charged is up to the Lender.

Our suggestion is that the Borrower be charged both an ICAP Borrower Fee and an ICAP Program Fee and that the Lender uses the Program Fee' collected from the Borrower to pay the Lender Fee. For example:

\$100,000	Loan to Borrower
\$3,000	ICAP Borrower Fee of 3%, paid directly by the Borrower
\$500	ICAP Program Fee of 0.5%, which is charged to the Borrower and used by the Lender to pay the Lender Fee
\$3,500	Total Borrower and Lender Fee of 3.5%, which is matched by ICAP and deposited into the Reserve Account
\$7,000	Total amount deposited into Loan Loss Reserve Account

Enrollment Examples

	Loan 1	Loan 2	Loan 3
Purpose	Working Capital for Retail	Purchase Manufacturing Equipment	Purchase office building & equipment for Dental Office
Loan Amount/ Enrolled Amount	\$50,000/\$50,000	\$500,000/\$500,000	\$600,000/\$300,000
Collateral/Project Value	Inventory & A/R Variable	Equipment \$625,000	Real estate & equipment \$700,000
Type/Term	Line of Credit/ 12 months renewable	Equipment/7 years	R/E & Equipment 5 year balloon/ 15 year amortization
Loan to Value	N/A	80%	86%
Borrower Fee	\$1,750 (3.5%)	\$12,500 (2.5%)	\$13,500 (4.5%)
Lender Fee	\$250 (0.5%)	\$2,500 (0.5%)	\$1,500 (0.5%)
Match Total	\$2,000 (4.0%)	\$15,000 (3.0%)	\$15,000 (5.0%)
Reserve	\$4,000 (8.0%)	\$30,000 (6.0%)	\$30,000 (10.0%)

Building a Reserve Fund

Example: Using the examples above, the Lender enrolled \$850,000 in loans in ICAP.

Lender/Borrower Reserve Fees	\$32,000
<u>IBGC Matching Reserve Fees</u>	<u>\$32,000</u>
Total Reserve Fund Available	\$64,000

The Reserve Fund can be accessed at charge off for any claims, 3 months accrued interest, and up to one half of all collection costs.

Reserve Fund Maintenance

Uses of Accrued Interest

- The IBGC may withdraw at any time up to 50% of all interest or income credited to the Reserve Fund. These funds will be used to offset the administrative costs associated with operating the Program or to fund future matching fees.

Excess Reserve Fund Withdrawal Procedures

- If for 12 months the Reserve Fund continuously exceeds 50% of the existing ICAP loan portfolio, with 30 days notice the IBGC may withdraw any excess funds so that the remaining fund amount will be equal to 50% of the enrolled loan amount. These funds will be used to offset the administrative costs associated with operating the Program or to fund future matching fees.
- If the Lender discontinues using the Program and no additional loans are being enrolled, the IBGC may make withdrawals as stated above until all loans are paid, then the remaining Reserve Funds may be withdrawn by the IBGC.
- If the Lender formally terminates participation in the Program, the 12-month period noted above will not apply and the IBGC may withdraw excess funds from the reserve immediately.

Two Simple Steps to Filing Claims

Step 1

Complete and submit the Claim Form to the IBGC

At charge off, the Lender completes a claim form for the amount of loss, up to 3 months accrued interest, and up to one half of collection costs. If there are insufficient funds in the Reserve Fund Account, the Lender may take the current balance, and up to 75% of any additional funds transferred into the account until paid-in-full.

Step 2

The IBGC transmits Claim amount to the Lender

Upon receipt of the Claim Form, the IBGC will within 10 business days pay from funds in the Reserve Fund the amount of the claim if there are sufficient funds available.

The IBGC may reject a Claim when the representations and warranties provided by the Lender were known by the Lender to be false.

