



Funds Available for Lending Through State Small Business Credit Initiative

by Jennifer Schrader
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Small businesses account for 98.9 percent of all businesses in Florida and employ half of the state's work force. They also produced more than 40 percent of the state's private-sector output in 2009¹, the most recent year for which such information was available.

And the story is much the same throughout the United States.

The significance of small businesses to the nation's economy motivated the enactment of the federal Small Business Jobs Act of 2010. The State Small Business Credit Initiative (SSBCI) was created under the act and was funded with \$1.5 billion to strengthen state programs that support private lending to small businesses. The initiative is expected to help generate up to \$15 billion in private lending to small businesses nationwide.

The Florida Department of Economic Opportunity (DEO), which implements the SSBCI in Florida, was allocated \$97.6 million in August 2011. The allocation is expected to help generate \$976 million in private lending for the state's small businesses. The DEO's goal is use the funds for programs that leverage private lending to help finance small businesses that are creditworthy but are not getting the loans they need to expand and create jobs.

The \$97.6 million in SSBCI funds are disbursed through the Florida Capital Access Program, the Florida Venture Capital Program and the Florida Small Business Loan Support Programs. The Florida Small Business Loan Support Program includes the Florida Loan Participation Program, the Florida Loan Guarantee Program and the Florida Export Loan Guarantees and Export Direct Loans Programs. Through a contractual agreement between the DEO and Enterprise Florida Inc., the latter organization has agreed to administer the Florida Small Business Loan Support

Programs and the Florida Venture Capital Program. The DEO, meanwhile, is administering the Florida Capital Access Program.

The DEO and Enterprise Florida are required to obligate the SSBCI funds by August 2013.

Funds Are Critical to Florida's Small Businesses

The SSBCI is critical to small businesses, which identified "the elimination of access to debt financing" as the No. 1 issue facing them in Florida.² The initiative can help with meeting this critical issue, and the DEO is actively reaching out to Florida's lenders to assist in providing funds to small businesses. Florida's lenders are an essential partner in implementing all programs funded by the SSBCI. Any federal or state-insured bank, credit union or community-development financial institution can participate to ensure that Florida's small businesses have access to debt financing.

The value of the SSBCI is realized by Florida's lenders when the state's elected and appointed city officials share the benefit of the initiative with their local lenders. Local lenders, such as community banks, historically lend to small businesses and could enhance their historical trend in lending to small businesses by participating in the initiative. Advantages to participating in the SSBCI for a local lender include:

- » limited exposure to losses on approved loans;
- » no state involvement in lender decisions;
- » the eligibility of certain refinances;
- » the eligibility of nonprofit organizations, government-owned corporations, and consumer and marketing cooperatives; and
- » the endorsement of the SSBCI by the Federal Deposit Insurance Company and the Office of the Comptroller of the Currency.

Targeted Small Businesses

By spreading the word about the SSBCI, elected and appointed city officials will ensure that eligible small businesses receive much-needed access to debt financing. Under the program, a small business is any for-profit or nonprofit organization located in Florida that has up to 500 employees.

SSBCI loans will be provided to small businesses and nonprofits seeking capital for business purposes, which include start-up costs, working capital, business procurement, franchise fees, equipment and inventory, as well as the purchase, construction, renovation or tenant improvements of an eligible place of business that is not for passive real-estate investment purposes.

State Small Business Credit Initiative Loan Programs

Florida Capital Access Program

The Florida Capital Access Program is a loan portfolio insurance program that enables lenders to make loans by making cash contributions to a loan loss reserve. The program matches a fee paid by the borrower, or paid as a combined fee by the borrower and lender, that ranges from 2 percent to 7 percent of the loan to be placed in the loan loss reserve. The loans may be approved for up to \$5 million.

<i>Total Loan</i>	\$100,000
Borrower fee at 2 percent	\$ 2,000
Private lender fee at 2 percent	\$ 2,000
SSBCI match amount at 4 percent	\$ 4,000
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Total loan loss reserve account contribution at 8 percent	\$ 8,000

The lender can build its loan loss reserve under the Capital Access Program using a variety of models and cover losses in the event of a default. For example, 13 enrolled program loans that are \$100,000 each with an 8 percent reserve produce \$104,000 in cash for the loan loss reserve.

Florida Small Business Loan Support Program

The Loan Guarantee and Loan Participation Programs are for businesses that demonstrate adequate cash flow coverage and other credit underwriting metrics. However, these transactions are undertaken to help mitigate any perceived credit weaknesses. Targeted transactions range from \$250,000 to \$500,000, and the maximum loan term is five years.

Florida Loan Guarantee Program

Total loan	\$250,000
SSBCI guarantee amount up to 50 percent	\$125,000

Florida Loan Participation Program

Total loan	\$250,000
SSBCI purchase participation amount up to 50 percent	\$125,000

Florida Export Loan Guarantee Program

Total loan	\$500,000
Florida Export Finance Corporation Inc. guarantee amount up to 90 percent	\$450,000
SSBCI guarantee amount up to 25 percent	\$112,500

The U.S. Department of Treasury requires SSBCI lenders to have at a minimum 20 percent of their own capital at risk in each transaction. In exceptional circumstances, Enterprise Florida reserves the right to increase the percentage at which it will guarantee or participate on a credit facility.

Venture Capital Program

Enterprise Florida, through a contract with the DEO, administers a partnership with the Florida Opportunity Fund (www.floridaopportunityfund.com) to manage the Florida Venture Capital Program, which provides equity investments and convertible debt instruments to emerging Florida companies, as well as companies locating in Florida that have perceived long-term growth potential.

City governments and elected officials are encouraged to spread the word about the SSBCI. More information about the programs is available at www.floridajobs.org/ssbci or www.eflorida.com/ssbci, or through the following contacts:

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Endnotes

¹U.S. Small Business Administration, Office of Advocacy, “Small Business Profile: Florida,” January 2012.

²State of Florida, Office of Small Business Advocate, Report for the State of Florida’s Governor, President of the Senate and Speaker of the House of Representatives, “Small Business Issues and Recommendations,” 2011 Legislative Session: www.flchamber.com.

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