



# *Virginia Capital Access Program*

## *Program Manual*

# Virginia Small Business Financing Authority

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#### **I. Program Overview**

Since 1998, the Virginia Small Business Financing Authority (VSBFA) has operated a statewide financing assistance program, known as the Virginia Capital Access Program (VCAP or the “Program”). The Program was modeled after similar successful programs in use in other states for many years.

The Program is designed to encourage banks operating in Virginia to make loans that they otherwise would not make due to their riskier profile. The Program offers lenders a flexible, non-bureaucratic tool to expand their market base and enhance their ability to meet the financing needs of Virginia's businesses. For the banks who participate, the major benefits of the Program are its simplicity and flexibility. Decisions regarding the enrollment of loans in VCAP are made by lenders without approval or involvement from VSBFA. The loan enrollment is completed after the loan is made and involves a one-page form. Lenders may provide term loans, lines of credit or both, and may enroll all or part of a loan.

From the state's perspective, VCAP is a judicious use of scarce resources. Since the Program is designed to lower risk on a portfolio of loans, a small amount of state funding can generate a significant incremental amount of bank financing.

#### **II. Program Mechanics**

Unlike some government programs which provide a guaranty of a specific loan, VCAP is different in that the program utilizes an “insurance” concept on a portfolio of loans. Under the Program, each participating bank builds a loan loss reserve (the “Reserve Fund”) through fees collected from the bank/borrower and from VSBFA. A separate Reserve Fund is established for each participating bank, so the performance of any one participating bank will not affect the others. Moreover, 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 bank's VCAP loan portfolio.

##### **A. Enrollment Fees**

- Enrollment Fees are set by the participating bank at the time of loan enrollment, based on the bank's perceived level of risk for the loan. Enrollment fees can range between 3% and 7% and can be paid by the Borrower, or the Bank, or by both; however the combined Enrollment Fees paid can not exceed 7%.
- At the time the bank notifies VSBFA of the loan enrollment, a matching premium is deposited by VSBFA into the bank's Reserve Fund.
- The more frequently the bank 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 federal or state chartered bank is eligible for participation in the Program. All participating banks must execute a VCAP Bank Participation Agreement and must provide an interest-bearing checking account to serve as the bank's Reserve Account.

## **C. Eligible Borrowers**

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

1. Borrower is a 501c3, or
2. Borrower is a for-profit corporation, partnership, limited liability corporation, limited liability partnership, joint venture, sole proprietorship, cooperative, or other entity which is authorized to conduct business in the Commonwealth of Virginia that has 250 employees or less, or has a net worth of less than \$2 million, or has had revenues below \$10 million over the past 3 years, and
3. Borrower is not an executive officer, a director, or a principal shareholder of the participating bank nor has a related interesting or is an immediate family member of an executive officer, director, or principal shareholder of the participating bank.

## **D. Eligible Loan Uses**

To be considered **eligible** for enrollment, the **loan use** must:

- be used for an endeavor related to industrial, commercial or other business enterprise within the Commonwealth of Virginia;
- not be related to residential housing or passive real estate ownership;
- not refinance outstanding loans with the bank that were not originally enrolled under the Program, unless such refinancing increases the outstanding principal balance of the loan by 25% or more.

**Eligible loan uses** include:

- financing the acquisition of land;
- the construction or renovation of buildings;
- the purchase of equipment, other capital projects;
- working capital.

## **E. Eligible Loan Terms and Structure**

The Virginia Capital Access Program gives lenders significant flexibility in structuring the loans they enroll under the Program. The lender decides which loans to cover under the Program, and the lender determines the interest rate, premium level, term, collateral requirements, and any other conditions of the loan.

***Although the Bank may have a longer note maturity and amortization period, the maximum term the loan is covered under VCAP is ten (10) years from the date of enrollment.*** In any event, maturities should match the Borrower's ability to repay, and the life of the asset purchased.

Banks may extend lines of credit under the Program so long as the maximum amount of the line is enrolled under the Program. The maturity date of the line is also the maturity date of enrollment in the Program unless the Lender notifies the VSBFA in writing of the line renewal or extension. Such notification is evidenced by a new enrollment form and Borrower's Certification Form. The VSBFA will not provide a matching fee for line renewals or extensions.

## **F. Loan Refinances**

1. ***Loans which refinance outstanding loans with the bank that were not originally enrolled under the Program are ineligible for enrollment, unless such refinancing increases the outstanding principal balance of the loan by 25% or more.***

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 with no additional premiums payable by either the bank/borrower or VSBFA. In this case, it is not necessary to file an additional enrollment form with VSBFA.

3. In the event that ***an enrolled loan is refinanced and additional principal is advanced***, the bank may file an enrollment form and pay an enrollment fee on that portion of the loan which is in excess of the original loan enrollment amount if the bank wishes to have that additional principal amount covered under the Program.

## **G. Maximum Enrolled Loan Amount**

The maximum aggregate outstanding loan amount(s) which may be enrolled for any single borrower, or any common enterprise in which the borrower has an ownership interest, is \$250,000.

## **H. Maintenance of the Reserve Fund**

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

### 1. Location of the Reserve Fund:

- For efficiency and administrative convenience, the Reserve Fund for participating banks will be established in the name of VSBFA and maintained at that bank.
- Reserve Fund accounts are to be interest bearing, and participating banks may not charge VSBFA for any fees related to VCAP loan transactions or for the maintenance of the Reserve Fund account.
- VSBFA will monitor Reserve Fund account activities and will deposit VSBFA's matching premium contributions to the Reserve Fund.
- ***The Reserve Fund accounts are public deposits pursuant to the Security for Public Deposits Act and must be indicated as such on the bank records. The bank is subject to the collateralization and reporting requirements of the Act.***

### 2. Uses of Accrued Interest:

- Interest income earned on the Reserve Fund will be credited to the account.
  - VSBFA may withdraw at any time up to 50% of all interest or income credited to the Reserve Fund. VSBFA will utilize these funds to offset the administrative costs associated with operating the Program or to make future matching fees.
3. Excess Reserve Fund Withdrawal Procedures:
- If for 12 consecutive months the amount in a bank's Reserve Fund continuously exceeds the amount of that institution's existing VCAP loan portfolio, VSBFA may withdraw any excess funds within this reserve so that the amount remaining in the reserve will be equal to the outstanding aggregate balance of existing VCAP loans.
  - If a participating bank effectively discontinues using the Program and no additional loans are being enrolled, VSBFA will make withdrawals against the Reserve Fund as described above until all loans enrolled by the bank have been repaid. At that time, all remaining funds in the Reserve Fund account will be withdrawn by VSBFA.
  - If a bank formally terminates its participation in the Program, the 12-month period noted above will not apply and VSBFA may withdraw excess funds from the reserve immediately.
4. Reserve Fund Bank Statement:

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

## I. Initial Bank Participation Procedures

### 1. Execution of the VCAP Bank Participation Agreement and Designation of Bank Contacts.

- If not already completed, add the bank's name and the date to the front of the Agreement and have a senior officer of the bank execute the agreement on the last page
- Please advise VSBFA of the bank's VCAP primary and secondary contact information. The contact information should include names, titles, phone numbers, e-mail addresses and fax numbers.
- Please also provide a bank contact to whom we can speak when arranging publicity on the bank's participation in the program.

### 2. Establishment of the Reserve Fund Account.

- The account that will be used as your bank's Reserve Fund Account must be an interest-bearing, demand deposit account, which **will not incur service charges** of any kind, including monthly maintenance fees. The account holder should be Virginia Small Business Financing Authority and the first address line should show Virginia Capital Access Program – Reserve Fund. **The Reserve Fund is public deposits pursuant to the Security for Public Deposits Act and must be indicated as such on the bank**

**records. The bank is subject to the collateralization and reporting requirements of the Act.**

- The Virginia Small Business Financing Authority is a political subdivision of the Commonwealth of Virginia. Our tax identification number is: 54-1300845.
- There will be three authorized signatories on the account; Scott E. Parsons, Executive Director – Virginia Small Business Financing Authority and Patricia S. Thorne, Senior Project Finance Manager, and Anna Mackley Cobb, Project Finance Manager – Virginia Small Business Financing Authority.
- Please forward to VSBFA your bank’s signature card and account resolution necessary to establish the deposit account.
- Once the Reserve Fund account is established, please supply VSBFA with a starter kit of approximately 15-20 checks.

The receipt of the starter kit is necessary because we deposit the state matching funds through EFT. It will take approximately one week to finalize arrangements for the electronic funds transfer. However, this will not prohibit your bank from proceeding with the closing of any loans you intend to enroll in the Program.

### **III. Program Procedures**

#### **A. Processing and Enrolling an Eligible Loan in VCAP**

Prior to enrolling a loan in VCAP, the participating bank must:

1. Determine that the bank desires to use VCAP as the result of the proposed loan’s riskier profile.
2. Approve the loan. (VSBFA does not participate in the approval decision.)
3. Establish the premium level, and calculate the enrollment fee based on the amount of the loan the bank wishes to enroll. (See also “Enrolling a Portion of the Loan” below.)
4. Collect the enrollment premium from the borrower.
5. Deposit the enrollment fee into the bank’s Reserve Account.
6. Obtain the borrower's signature on the “Borrower’s Certification Form” (see Exhibit A).

To process and enroll an eligible loan under VCAP, the participating bank submits to the VSBFA

1. a completed VCAP Enrollment form (Exhibit B) and
2. the Borrowers Certification Form (Exhibit A) and
3. a copy of the bank’s deposit receipt for the enrollment fee.

Faxed copies of the required documentation are to be sent to (804) 225-3384, ATTN: VCAP ENROLLMENT. **All documentation must be received by the VSBFA within ten (10) business days after the bank originates the loan:**

#### **When VSBFA receives a VCAP Enrollment Form:**

- VSBFA reviews the form for completeness;
- Transfers electronically the matching premium amount into the Reserve Fund account at the participating bank.

- If the enrolled loan is among the first \$1,000,000 in loans that the participating Bank has enrolled under the Program, VSBFA will provide a “double-match” that is twice the amount of the enrollment fee contributed by the borrower/bank, up to a maximum match of 14%. Additionally, once a bank has reach \$1 million in enrolled loans, the VSBFA can continue to provide a one-time double matching fee for the benefit of certain targeted borrowers. These targeted borrowers are a) technology companies, b) a company located in a rural area, or c) a company that is majority owned by a socially or economically disadvantaged individual(s). All such target groups are defined in the Bank Participation Agreement.

**B. Enrolling a Portion of a Loan:**

In situations where lenders feel marginally comfortable with a prospective loan, the bank 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 bank 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 documented out-of-pocket collection expenses.

By selecting this alternative, the bank 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**

Bank is to submit to the Virginia Small Business Financing Authority (VSBFA) a monthly bank statement which reflects all activity under the Reserve Fund within 10 days of the preceding month-end.

For each calendar quarter, the Bank is to submit to the VSBFA within 10 days of the quarter-end a report listing borrowers and outstanding balances of all Enrolled Loans as of the end of that preceding calendar quarter. 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 covered amount of the loan as enrolled, and in the case of lines of credit, the line commitment shall be considered to be the enrolled line amount.

- 1 Name of Borrower
- 2 Amount of Loan
- 3 Amount of Enrolled Loan
- 4 Type of Loan (Line or Term)
- 5 Outstanding balance
  - **If line of credit – enrolled line amount and maturity date**
  - **If term debt – show the lesser of the outstanding balance or the enrolled loan amount and the date of enrollment**

Bank statements and enrolled loan reports are to be mailed to:  
Virginia Small Business Financing Authority  
VCAP  
P O Box 446  
Richmond, VA 23218-0446  
or faxed to: 804-225-3384

#### **D. Filing a Claim under the Program**

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

Should the bank 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 bank may designate the order of the priority in which VSBFA should pay the claims from the Reserve Fund account.

#### **E. Payment of a Claim**

Provided the bank has not made representations it knew to be false at the time of loan enrollment, VSBFA will promptly pay a claim, as submitted, from the Reserve Fund account. If there are insufficient funds in the Reserve Fund account to cover the entire amount of the bank's claim, VSBFA shall pay the bank an amount equal to the current balance of the Reserve Fund account, less any fund interest accrued to VSBFA. Such payment shall be deemed to fully satisfy the claim and the bank will have no future right to receive any amount from the Reserve Fund with respect to that claim.

#### **F. Collection Rights and Recoveries Subsequent to a Claim**

Participating banks 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 bank must promptly return these monies, less any amount needed to cover out of pocket expenses incurred, to VSBFA for deposit in the Reserve Fund account.

#### **G. Liability**

All loans enrolled under the Program are private transactions between the borrower and the bank. VSBFA's responsibility lies in administering the Program and providing matching premium payments on VCAP loans. VSBFA is not a party to the loans and disclaims any liability in connection with the loans enrolled under VCAP.

By executing the Bank Participation Agreement, each participating bank 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 bank acknowledges that VSBFA bears no liability to the bank beyond the funds which are deposited into the Reserve Fund account.



**EXHIBIT B**  
**VCAP Loan Enrollment Form**

<b>Lender Information</b>			
Participating Bank	Phone No.	Fax. No.	
Loan Officer	Officer's Address		
<b>Borrower Information</b>			
Applicant Name <i>(Please include d/b/a or t/a)</i>			
Complete Address <i>(Please include the city or county in which the Borrower is located)</i>			
Type of Business <i>(Please be specific: eg. Veterinary Clinic, Dental Practice, etc.)</i>	SIC/NAICS#	Tax Identification Number	
Phone#	Borrower's Estimate of New Jobs Created as a Result of this Loan: _____	Borrower's Estimate of No. of Jobs Saved as the Result of this Loan: _____	
<b>Loan Information</b>			
Purpose			
Note Date	Maturity Date	Date Enrolled	
Note Amount	Enrolled Amount	Loan Type (Line or Term Loan)	
<b>NOTE: Lines of credit will be considered un-enrolled and out of the program one month after the maturity date unless the VSBFA is informed in writing by the bank that the maturity date has been extended as specified in Section 4.9 of the Bank Participation Agreement.</b>			
<i>Complete the following fields if refinancing an enrolled VCAP loan:</i>	Enrolled Balance Prior to Refinance	New Total Enrolled Amount	
Amt. of Other Outstanding Enrolled Loans to Borrower:			
<b>Reserve Information</b>			
Percentage:	Borrower/Bank: %:	VSBFA %:	
Amount:	Borrower/Bank: \$:	VSBFA \$:	
<b>VSBFA Acceptance</b>			
<p><b>Virginia Small Business Financing Authority</b></p> <p>By: _____</p> <p>Date: _____</p>			

EXHIBIT C

**VCAP Claim Form**

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1. Name of Bank: \_\_\_\_\_

2. Name of Borrower: \_\_\_\_\_

3. Borrower Customer No./ Note No.: \_\_\_\_\_

4. Original Covered Amount of Loan at Enrollment: \_\_\_\_\_

5. Outstanding Principal Balance of Loan: \_\_\_\_\_

6. Amount of Claim

a. Principal \_\_\_\_\_  
(Amount of principal cannot exceed the original covered loan amount)

b. Accrued Interest \_\_\_\_\_

c. Out of pocket expenses \_\_\_\_\_  
(Please provide documentation)

Total Amount of Claim \_\_\_\_\_

Authorized Signature \_\_\_\_\_

Name and Title \_\_\_\_\_

Date \_\_\_\_\_

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For VSBFA internal use only

Approved by: \_\_\_\_\_ and

\_\_\_\_\_