

**Article – March 2011 WI Banker**

**Capital Access Program**

The Capital Access Program (CAP) is an innovative economic development program which operates as a loan loss reserve to stimulate lending to businesses. Under the program small amounts of public funds are matched with dollars from the borrower and the lender to create a loan loss reserve, which helps to mitigate lending risk. Unlike other credit enhancement programs, the CAP process plays no role in lending decisions or in setting loan terms and conditions.

The Capital Access Program is not new to southeastern Wisconsin but as a result of a \$350,000 Wisconsin Department of Commerce grant to Wisconsin Business Development Opportunity Fund, LLC (WBD), it has been expanded to include the entire State. Since 1992, the Milwaukee Economic Development Corporation (MEDC) has administrated a CAP program in the metro Milwaukee area that was available to lenders in Milwaukee, Ozaukee, Washington and Waukesha Counties. Over the years, MEDC’s CAP program has helped to fund almost 900 projects that most likely would not have moved forward without the availability of the CAP loan loss reserve.

Under the WBD award the CAP program will not only be Statewide but the definition of lenders eligible to use the program will also be expanded. In addition to state and federally regulated financial institutions in good standing, entities that have existing portfolios of revolving loans to small business will also be eligible. County and municipal economic development groups that operate Revolving Loan Funds in economically distressed area and have as their primary mission the promotion of community development will in many cases be able to use the CAP program. This is an important new tool for groups which currently have few ways of mitigating the risks involved in loaning to small businesses and non-profits.

As indicated above, CAP will function as a loan loss reserve, funded with the following deposits:

1. Borrower deposits no less than 1.5% and no greater than 3.5% of the loan amount (determined by lender)
2. Lenders deposits an amount equal to that of the Borrower (may be reimbursed by Borrower)
3. WBD deposits at least 100% but not greater than 150% (determined by WBD) of the combined amounts paid by the Borrower and Lender

Reserve Fund Example:

Borrower Fee:	2.0%	(determined by Lender)
Lender Fee:	2.0%	(100% match)
WBD Deposit:	<u>3.0%</u>	(150% match - % determined by WBD)
Total	7.0%	

Keep in mind that the Lender may use Reserve Fund to offset losses on any loan enrolled in the CAP program as illustrated in the following example of a Claim by Lender to Reserve Fund:

- o Lender XYZ’s Reserve Fund Balance consists of loans it enrolled:
  - Loan A \$ 3,500 (\$ 50,000 loan with a reserve of 7.0%)
  - Loan B \$ 4,500 (\$100,000 loan with a reserve of 4.5%)
  - Loan C \$ 3,600 (\$ 40,000 loan with a reserve of 9.0%)\$11,600 Reserve Fund Balance
- o Lender XYZ experiences a loss of \$6,000 on Loan B and submits a claim to WBD. Reserve Fund Balance is now reduced to \$5,600 (\$11,600 - \$6,000)

Overall, accessing the CAP program is simple and the enrollment forms and process are easy to use. The loans are private transactions between lenders and borrowers with the lender assuming the risk of the loan. Lenders have the flexibility to recast, extend or refinance the loans to address the needs of the business

owners. WBD Opportunity Fund, LLC, the program administrator, plays no role in lending decisions or in setting loan terms and conditions.

CAP loans are available to help mitigate lending risk with both for profit businesses and non-profits (a group with limited access to credit enhancement programs). The loans are limited to a maximum size of \$500,000 but they can be long- or short-term, term loans or lines of credit. Loan proceeds may not be used for a business that involves the sale of alcohol, construction/purchase of a residences or passive real estate investments.

For more information about the CAP Program or how to enroll, contact:

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All forms for the CAP program can be found on the WBD website: [www.w.bd.org](http://www.w.bd.org) by navigating to the Program and Services page.