Capital Access Programs

CDFI Case Study on the California Capital Access Program

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Capital access programs (CAPs) provide credit enhancement for small-business loans by pooling contributions from (usually) borrowers, lenders, and public entities to create a reserve fund that the lender can claim against to cover loans that default. Started in Michigan in the 1990s, CAPs were given new life through a federal investment of $28 million (through the end of the program in 2016) under the US Treasury's State Small Business Credit Initiative (SSBCI), which was part of the 2010 Small Business Jobs Act. SSBCI (2016) supported a wide variety of state programs that helped finance small businesses, but only California, Michigan, New York, North Carolina, and Massachusetts, which already had CAPs or similar programs, were able to use SSBCI successfully to operate CAPs at scale. The program's structure provides lenders significant flexibility on a loan-by-loan basis, but the per loan credit support is low, and it requires a borrower contribution, making standard Small Business Administration programs more attractive for many banks. But CAPs were attractive to community development financial institutions (CDFIs) that were used to creative credit enhancements and making many small loans for which Small Business Administration programs were not available or were uneconomic. This brief details the structure of and lessons from the largest of the CAPs, the California Capital Access Program (CalCAP).

CalCAP, run by the California Pollution Control Financing Authority, predated the SSBCI, but it grew substantially with the infusion of federal capital. The program includes general and specialized programs. The general program provides loans to California small businesses with fewer than 500 employees (although in practice, CAP-funded businesses generally have fewer than 10 employees), who will deploy the proceeds in California. Lenders have substantial flexibility in which loans to enroll in the program. Loans can be used for land, construction, equipment, inventory, and working capital and can be for up to $5 million (although almost all CalCAP loans are smaller), be long or short term, be secured or unsecured, and have fixed or floating interest rates. Lenders and borrowers each contribute 2.0 to 3.5 percent of the loan amount to the reserve pool, which the state matches, and enhanced matches are

available for loans to businesses in designated economically distressed communities. The program's total accumulated reserve can be used by any lender to recover up to 100 percent of the loss on a defaulted loan. As of the end of 2017, 71 lenders participating in the general program had enrolled more than 18,500 loans with total principal of more than $1.2 billion and had made just under 1,000 approved claims for a little more than $10 million. Twenty California CDFIs, including four CDFI banks, have enrolled loans in CalCAP.

BOX 1

The Urban Institute's Collaboration with JPMorgan Chase

The Urban Institute is collaborating with JPMorgan Chase over five years to inform and assess JPMorgan Chase's philanthropic investments in key initiatives. One of these is Partnerships for Raising Opportunity in Neighborhoods (PRO Neighborhoods), a $125 million, five-year initiative to identify and support custom solutions for the unique challenges facing disadvantaged neighborhoods in US cities, with community development financial institutions (CDFIs) as critical partners in that effort. The goals of the collaboration include using data and evidence to inform JPMorgan Chase's philanthropic investments and informing the larger fields of policy, philanthropy, and practice. Urban Institute research is exploring the complexity of how to build CDFI capacity and impact, recognizing the diverse ways CDFIs serve their target communities. This case study highlights a program that illustrates the role that CDFIs can have in promoting equitable development at the municipal level.

CAP programs work best for lenders who enroll a large number of loans continuously, enabling them to both build up and use the loss reserve. The CDFI Opportunity Fund became CalCAP's most intense user, enrolling all eligible loans and claiming all losses remaining after the CDFI employed its normal collection practices. Through the end of 2017, Opportunity Fund had enrolled 8,754 loans with total principal of $142 million in CalCAP and made claims on 342 loans (3.9 percent of enrolled loans), recovering $2.9 million. The loans supported businesses in all parts of the food chain, from tamale makers to restaurants and grocery stores, and helped commercial companies in many sectors and neighborhood service providers grow. Opportunity Fund, working with other CDFIs and with banks that have been major users of the program, also became a leader in helping shape and advocate for the program administratively and in the legislature. According to Luz Urrutia, Opportunity Fund's CEO, "CalCAP has been key to our ability to finance thousands of California businesses. It enables us to take reasonable risk and to say 'yes' to more than 10 promising businesses every day. These businesses create jobs and local economic activity."

Local advocacy will be especially important to the program's continuation, as the federal SSBCI program has ended, and state funds for administration and to match reserves for newly enrolled loans have nearly run out. Without new funds, the state has begun funding its share of the reserve for newly enrolled loans through "recapture" of reserves attributable to loans that have matured, thus reducing the growth of the reserve and limiting the program's utility. Lenders who would not agree to recapture were not allowed to enroll new loans, further reducing the program's size and its ability to support its

own administration. And ironically, although the SSBCI was designed to keep federal rules light and grant states significant flexibility, the loss of the SSBCI's framework (including, for example, rules about how much of the reserves could be spent for administrative expenses) has opened the program to survival strategies that some lenders find counterproductive.

Opportunity Fund is sponsoring Senate Bill 551, the Capital Access Loan Program for Small Businesses, to increase CalCAP's sustainability and transparency. To make CalCAP more transparent, the bill clarifies how lenders can exit the program. The bill would also allow lenders to continue enrolling loans even if or when state funds are exhausted, which would make existing funds last longer and improve program sustainability. The bill also proposes to move the CalCAP program to the Governor's Office of Business and Economic Development, which Opportunity Fund and the bill's supporters believe would be better positioned to access new state funding. The bill does not include new funding but is seen as an essential step to keeping the program alive and viable. Most participating lenders support the bill, as well as 20 small-business organizations and many legislators. Gwendy Brown, vice president for research and policy at Opportunity Fund, said, "We have hard work to do to make the CalCAP program sustainable, but we are well on the way." Without the advocacy of CalCAP users, led by CDFIs, CalCAP will slowly erode, harming the CDFIs and other lenders and the thousands of small businesses the program has supported.

Reference

SSBCI (State Small Business Capital Initiative). 2016. *Program Evaluation of the US Department of the Treasury State Small Business Credit Initiative*. Washington, DC: US Department of the Treasury.

About the Author

Ellen Seidman is a nonresident fellow in the Housing Finance Policy Center at the Urban Institute. She chairs the board of Aeris Insight, sits on the boards of Friends of the Strand Theatre and Maine Initiatives. She cofounded and chaired the board of the Center for Financial Services Innovation and was the 2013–14 New York University Stern–Citi Leadership and Ethics Distinguished Fellow. From 2012 to 2016, Seidman served on the inaugural Consumer Advisory Board of the Consumer Financial Protection Bureau. From 2012 to 2014, she was a visiting scholar at the Federal Reserve Bank of San Francisco, where she edited *Investing in What Works for America's Communities*; *What Counts: Harnessing Data for America's Communities*; and *What It's Worth: Strengthening the Financial Future of Families, Communities, and the Nation*. From 2002 to 2010, Seidman held various positions at ShoreBank Corporation. From 1997 to 2001, she directed the Office of Thrift Supervision. She also sat on the board of directors of the Federal Deposit Insurance Corporation and chaired the board of directors for NeighborWorks America. Seidman was senior counsel to the Democratic staff of the House Financial Services Committee, was special assistant to the president for economic policy, and held senior positions at Fannie Mae and the US Departments

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