



Idaho Collateral Support Program

Participation Guide



Table of Contents

Summary

Section 1: Eligibility Requirements

- a) Participating Lenders
- b) Borrowers
- c) Loans

Section 2: Operational and Process Steps

Section 3: Collateral Support Deposits

Section 4: Reporting Requirements

Section 5: Forms

- Lender Participation Agreement
- Collateral Support Application
- Certificate and Agreement of Borrower
- Collateral Deposit Agreement

Summary

The Small Business Collateral Support Program (the “CSP”) is a collaborative partnership between the U.S. Department of the Treasury (“Treasury”), Idaho Department of Commerce, Idaho Housing and Finance Association, and the Idaho Bankers Association.

The CSP establishes pledged cash collateral accounts with participating lending institutions to enhance loan collateral for qualified small business borrowers who would not otherwise be able to obtain financing on acceptable terms and conditions. Collateral deposits are established on an individual loan basis and are available to cover loan losses in the event of default by the borrower. Upon loan maturity, deposits are returned to the CSP for recycling to other qualified small business borrowers.

Through application by the Idaho Housing and Finance Association (“IHFA”), Treasury has allocated a total of \$13,168,350 to the State of Idaho (Idaho Department of Commerce) which has contracted with IHFA to administer the CSP working with participating lenders across the state.

Participating lenders will apply to IHFA for collateral support deposits on behalf of their qualified small business borrowers. Participating lenders are responsible for their own credit underwriting decisions and originating loans. IHFA’s responsibility is to ensure compliance with CSP requirements, establishing and managing collateral support accounts, and reporting to Treasury. The Idaho Bankers Association will assist in promoting and marketing the CSP to Idaho’s lending institutions. Interested small businesses will be referred to participating lenders for loan and collateral support deposit qualification purposes.

Section 1: Eligibility Requirements

a) Lender Eligibility

“Lender” means a depository institution, insured credit union, or community development financial institution, as those terms are each defined in Section 103 of the Riegle Community Development and Regulatory Improvement Act of 1994 (12 U.S.C. 4702), which is experienced in the making of loans to businesses of the type provided for under the CSP, has an office and business operations in the State of Idaho, and is regulated by the Office of the Comptroller of the Currency, the Federal Reserve Board, the Idaho Department of Finance, or similar regulatory agency. All participating lenders must execute a Lender Participation Agreement with IHFA.

b) Borrower Eligibility

- Borrower is registered and doing business in Idaho.
- The business structure 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 State of Idaho.
- The business employs 500 or fewer employees.
- Borrower is not an executive officer, director, or a principal shareholder of the participating Lender or has a related interest in or is an immediate family member of an executive officer, director, or principal shareholder of the participating Lender.
- Principal(s) of the entity have not 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)).
- Minority and Women Owned Businesses Enterprises as defined in the Lender Participation Agreement are encouraged.

c) Loan Eligibility

Eligible Loans (as defined in the Lender Participation Agreement) must generally meet a participating Lender’s credit underwriting criteria with the exception of loan collateral adequacy. The CSP is not intended to make up for deficient credit criteria such as cash flow, etc.

- SBA 7(a) loans are ineligible.

- SBA 504 loans are eligible provided that an Eligible Loan shall not include any unguaranteed portion of an SBA guaranteed loan without the prior written consent of Treasury.
- \$5M maximum loan amount.
- All real estate financed by an Eligible Loan must be owner-occupied by Borrower.

Loans must be for a business purpose and include but are not limited to the following purposes:

- | | |
|--|---|
| • Start up costs | • Inventory Financing |
| • Working Capital | • Small Business Owner-Occupied Commercial Real Estate Acquisitions |
| • Business Acquisitions and Expansions | • Construction |
| • Franchise Financing | • Lender Bears a 20% or Greater Risk of Loss |
| • Equipment Purchases | |

Prohibited Loan Purposes

- | | |
|--|--|
| • Refinancing Existing Debt | • Lending |
| • Change of Ownership | • Pyramid Schemes |
| • Owner Reimbursement or Equity | • Illegal Uses |
| • Paying Delinquent Taxes | • Gambling |
| • Passive or Investment Real Estate Speculative Activities | • Charities and Nonprofits |
| | • Purchase of the Ownership of any Owner in a Business |

Section 2. Operational and Process Steps

1. Lending institution must execute a Lender Participation Agreement with IHFA.
2. Upon identifying an Eligible Lender, the participating Lender submits a Collateral Support Application to IHFA, and provides initial representation that the loan will meet the requirements referenced in the Lender Participation Agreement and the Collateral Deposit Agreement. The Lender may wish to obtain the Certificate and Agreement of Borrower at this time.
3. Eligible Lenders may submit a Collateral Support Program application prior to submitting a Lender Participation Agreement. If IHFA receives a CSP application prior to the receipt of the Lender's LPA, upon determining acceptability of the CSP application, the Lender will have 30 calendar days to execute a Lender Participation Agreement with IHFA. Furthermore, if receipt of a CSP application is received prior to the Lender executing a LPA with IHFA, upon acceptance of the application into the program, an executed Lender Participation Agreement must be received by IHFA at least 15 calendar days prior to the closing of the Lender's loan documents.

Upon determining acceptability of the Collateral Support Application, IHFA reserves funding for a collateral support deposit for the benefit of the specific loan and Lender, and communicates the same to the Lender. IHFA expects to respond within 3 business days and will respond with an initial email, followed by a formal letter. The reservation of funds will be valid for 60 calendar days.

4. The participating Lender underwrites the loan consistent with their normal underwriting criteria, assuming full responsibility for credit and ongoing servicing of the loan. Prior to loan closing, IHFA will open a pledged collateral deposit account with the Lender, and at loan closing, the Lender will execute a Collateral Deposit Agreement. The Lender is required to certify that it has followed industry prudent loan underwriting processes and that the collateral support deposit was instrumental in the Lender making the Eligible Loan. IHFA will then fund the account with the requested collateral support deposit.
5. In the event of a loan default and subsequent loss on the loan, the collateral support deposit is available to the participating lender after all Borrower collateral and security has been foreclosed upon.
6. Upon repayment of a loan and/or upon reaching loan maturity, the collateral deposit is returned to IHFA and the account is closed. IHFA may request partial return of the collateral deposit to correspond to ongoing principal reduction in the loan in order to maintain the original ratio of the collateral deposit to loan principal.
7. Participating Lenders are required to provide information to IHFA in order to comply with Treasury's periodic reporting requirements.

Note: For applicable Forms and Agreements referenced above, and the definitions, terms and conditions therein, see the Forms tab in this Guide.

Section 3. Leveraging Collateral Support Funding

One of the primary CSP requirements imposed by Treasury is to leverage aggregate Treasury funding (\$13.1 million) with private lending by a factor of ten over the five year program period. Consequently, one CSP goal is to facilitate \$131 million of total lending by December 31, 2016. The CSP will target a variety of small business loan types and maturities, including operating loans, credit lines, bridge loans, construction loans, as well as mid-term and longer term loans. Due to the expected variation in loan maturities supported by the CSP, the program will provide an opportunity to roll over funding and support multiple loans and/or borrowers during the five-year program life. This aggregate “rollover” feature allows for collateral support deposits greater than 10 percent of a loan amount, the ratio required if there were no aggregation or rollover situations.

For planning and management of this leverage requirement, the CSP has categorized collateral supported loans based on the expected loan duration. The following loan duration categories have been established:

- **Category I** – Loans with short-term maturities (1 year or less) such that the funding allocated to this category would be expected to rollover on average 4 times before December 31, 2016.
- **Category II** – Loans with intermediate term maturities (1 year to 4 years) such that the collateral support funding allocated to this category would be expected to rollover on average 2 times before December 31, 2016.
- **Category III** – Loans with longer term maturities (greater than 4 years) such that funding allocated to this category would be expected to support only one loan/borrower before December 31, 2016.

During the five-year program period, the CSP will maintain maximum collateral support levels to ensure that (1) the required 10:1 leverage ratio is met, (2) that private credit/capital will provide a greater than 1:1 ratio with CSP funding in every loan, and (3) that each participating Lender will have at least 20% of their own capital at risk in a qualified loan. Initially, Category I and Category II loans will be limited to a maximum collateral support level of 20%. Category III loans will be limited to a 15% level. As the program operates, these levels may be adjusted as necessary to meet collateral support needs in the Idaho small business lending market and to adhere to the required leveraging requirement. The Table below provides an estimated loan production schedule and leveraging calculation:

CSP Loan Production Assumptions	Category I	Category II	Category III	Total
Average Loan Amount	\$250,000	\$250,000	\$500,000	\$308,725
Expected Number of Loans				
2011	13	9	5	27
2012	50	14	20	84
2013	50	14	20	84
2014	50	14	20	84
2015	50	14	20	84
2016	<u>50</u>	<u>14</u>	<u>20</u>	<u>84</u>
Total	263	79	105	447
Total Loan Dollar Volume	\$65,750,000	\$19,750,000	\$52,500,000	\$138,000,000

Leverage Ratio $\$138,000,000/\$13,137,500 = 10.5$

Short and mid-term loans may roll over to the same borrower if the following conditions are met:

1. The underlying loan note has a set expiration date, and
2. The loan requires a re-underwriting to ascertain whether the CSP collateral deposit is still necessary for the Lender to make the loan. If so, participating Lenders would have to renew their certification of this need.

The CSP will be offered on a demand basis (first come first served) to qualified Idaho small business borrowers. As such the aggregate demand for collateral support funds and timing of this demand may limit the amount of per loan collateral support over time. Collateral support will only be provided to the extent necessary to facilitate making a qualified loan, not on a maximum allowable basis for each loan. Finally, loan losses that deplete the amount of CSP funding during the program period may also decrease the extent that funding can be rolled over for new lending opportunities.

Section 4 Reporting

The Lender shall provide all information necessary for IHFA to meet reporting criteria required by Treasury. While Treasury has not finalized the annual reporting criteria, at this time IHFA will be able to provide most of the data Treasury requires from information the Lender provides on the **Collateral Support Application (CSA)**, by electronic transmission (e-mail), and by fax or phone.

- **Reporting requirements – At loan inception and funding of the Collateral Support Application:**
 - Census Tract and Zip Code of the Borrower’s principal location in Idaho – **CSA**
 - Lender EIN – **CSA**
 - Total loan amount (amount of the loan or line of credit enrolled in the ICSP) and all other sources of funding for the loan. If other Federal or State funding or guarantees are involved, list the source and amount (also the principal amount of the loan that is a line of credit) – **CSA**
 - Date of initial disbursement of the loan / date of the loan closing – **Provided by the lender prior to loan closing**
 - Borrower’s annual revenues in dollars for the last fiscal year – **CSA**
 - Borrower’s FTE’s – **CSA**
 - The year of incorporation or organization of the Borrower – **CSA**
 - Borrower’s 6-digit NAICS Code – **CSA**
 - Number of jobs created and/or retained – **CSA**
 - Amount of collateral support – **CSA**

- **Reporting requirements – Semi-annually to IHFA:**
 - Outstanding principal balance of the loan
 - Current status of the loan (current, delinquent, in default)

Semi-annual reporting to IHFA to be accommodated by electronic transmission (e-mail), fax, or by phone.

Such other information as may be requested by IHFA for Treasury from time to time under the requirements of the SSBCI.