CAPITAL ACCESS PROGRAM DESCRIPTION

Although the Capital Access Program (CAP) is based on an insuring concept, it is fundamentally different from the traditional type of insurance or guarantee program, such as the SBA7(a) program, which guarantees some percentage of a loan, on a loan-by-loan basis. By contrast, the Capital Access Loan Program is based on a portfolio concept.

If a Lender participates in the Capital Access Program, a special reserve fund is set up to cover future losses from a portfolio of loans enrolled into CAP. The special reserve is owned and controlled by ADFA, but it is set aside for that specific Lender. Thus, each Lender participating in the program has its own earmarked reserve. A Lender can withdraw funds from its reserve only to cover losses on loans enrolled in CAP.

Payments are made into a Lender's reserve each time the Lender makes a loan under the Program. The Borrower makes a premium contribution, the Lender matches that, then AD FA matches the combined total of the Borrower and Lender contributions. The Lender can recover the cost of its payment from the Borrower, such as through a higher interest rate, up-front fees, or some combination. Up front contribution payments and fees can be financed as part of the loan.

The actual contributions made into the reserve are determined by the Lender, before the loan is made, within certain parameters. The amount paid by the Borrower, shall not be less than 1.50% nor greater than 3.50% of the loan amount. The amount paid by the Lender, shall be equal to the amount paid by the Borrower, however the Lender may recover from the Borrower the cost of the Lender's contribution in any manner agreeable by both the Lender and Borrower.

At a minimum, a 3.00% contribution of the loan amount is required to enroll a loan into the Program. Bank and Borrower contribution is matched by ADFA at 150% (a minimum total of 7.50% reserve) for the first $ 1 million in loans. After the initial $1 million of enrolled loans, ADFA matches Borrower and Lender contribution at 100 %.

At a maximum, 7.00% of the loan amount is paid up-front and matched by ADFA for a total of 17.5% contribution to the loan loss reserve, for the first $1 million in loans.

ADFA owns and controls the reserve, but it is designated for the Lender and usually held on deposit at the Lender (if a bank).

For any loan made under the program, an amount from 7.5% to 17.5% (for the first $1 million of enrolled loans) of the loan is paid into the Lender’s ear-marked reserve. After a Lender has made a portfolio of loans under the program, it might have a reserve equal to, for example 10.00% of the total amount of that portfolio, in such a situation, the lender could absorb a dollar loss of up to 10.00% of that portfolio and still be completely covered against loss. A key feature of the program is that the full amount in the lender’s total reserve is available as needed to cover any loss from any of the enrolled loans. If loans get paid off without any loss, the funds remain in the reserve.

CAPITAL ACCESS PROGRAM DESCRIPTION

The loss reserve enables a Lender to be more aggressive in making loans and expanding its market. However, if a Lender's loss rate exceeds the coverage provided by the reserve, the Lender will be at risk for that excess loss. Consequently, there is a clear built-in incentive for a Lender to be prudent.

Nevertheless, since the reserve would enable a Lender to withstand a substantially higher loss rate than it could tolerate under its conventional loan portfolio, the Program enables a Lender to prudently make almost 'lenderable' loans. For example, these loans might be loans to companies with good management and a good direction, but for one reason or another, such as a lack of a sufficient track record, lack of sufficient net worth, or other reason, could not quite qualify for a conventional lender loan.

Because the program is structured to provide a built-in incentive for the Lender to be prudent, there is no need for ADFA to be involved at all in reviewing the Lender's decision on the loan. The reserve is available for the Lender to protect and use. The Lender makes the loan and files a one-page Loan Filing Form with ADFA, within 10 days after the loan is made. Enrolling loans under the Program is designed to work as an automatic process.

Flexibility is a key characteristic of the Program. It is completely up to the Lender to determine how it wants to use the Program. The Lender sets its own criteria for determining whether to make the loan, determines what types of loans it wants to make under the Program, and decides the interest rate, fees, term, and other conditions of the loan. The loan can be short-term or long-term, fixed or variable, secured or unsecured, amortizing loans or balloon loans, term loan or line of credit, etc.

When filing a loan for enrollment under the program, the Lender has the option of covering an amount under the Program which is less than the full amount of the loan. This feature provides added flexibility, since Borrower and Lender reserve contribution payments, would then be based on this smaller amount. For example, a Lender makes a $100,000 loan under the Program but is convinced that under a worse-case scenario the maximum possible loss on the loan would be $60,000. The Lender could decide to specify a covered amount of $60,000 on the loan enrollment. In such an event the funds in the reserve could be used to cover the first $60,000 in principal loss on the loan, plus accrued interest, plus documented out of pocket expenses pro-rata 60/100. (However, no claim can be funded beyond the initial loan amount enrolled plus interest.)

A key feature of flexibility provides a Lender to work with a Borrower after the Lender has made a loan to the Borrower under the Program. After a loan has been made under the Program, the Lender can subsequently recast it as often as needed. The Lender can extend the term of the loan, amend covenants, release collateral, etc., without having to obtain approval from ADFA, or even reporting the change to ADFA.

The Lender also has the flexibility to refinance the loan and add principal If the total amount of the refinanced loan does not exceed the covered amount of the loan as previously enrolled, no new Borrower or Lender contribution payments need to be made into the reserve, and the fact of the refinancing does not even need to be reported.

Once a year, the Lender may be asked to file a simple report with ADFA containing merely a listing of the outstanding balance for each loan enrolled under the program. For example, if a $100,000 loan covered under the program has been paid down to $30,000, and then is refinanced back up to $100,000, then no new reserve contribution payments are owed. However, if the loan were instead refinanced up to $150,000, then reserve payments would be owed on the incremental $50,000 above the $100,000, but only if the Lender wanted to cover that additional $50,000 under the program.

Lines of credit are also treated with similar flexibility. In establishing a line of credit and filing it for enrollment, the amount of the loan, for the purposes of determining reserve contribution payments and the maximum covered amount, shall be the maximum amount that can be drawn down against the line of credit. Lenders could use their normal approach, including informal arrangements as applicable, in establishing a line of credit. A line of credit, once established, could then be renewed each year, staying covered under the program, without new reserve contributions being required (unless the covered amount under the program is to be increased).

The collection and claims process are also designed to work in a routine, non- bureaucratic way. The Lender simply uses its normal method for determining when and how much to charge off a loan. When a Lender charges off all or part of a loan, the Lender files a one-page claim form with ADFA, with loss repayment to be handled in a prompt and routine fashion.

Because of the payments that need to be made into the reserve, a loan made under the Capital Access Loan Program is likely to be a bit more expensive to the Borrower than a conventional bank loan. The premium payments into the reserve are one-time, up-front payments, the costs of which can be financed. Thus, the longer the financing stays on the books, the smaller the increase in the Borrower's effective interest rate. However, the transaction is still likely to be more expensive than a conventional loan. Borrowers who can obtain conventional bank financing to meet their needs, would normally be better off and competition within the banking industry will work to steer such borrowers to conventional financing. From the perspective of borrowers, the central thrust of the Capital Access Program is that it can provide access to financing for many companies that otherwise might not be able to obtain bank financing to meet their capital needs. Moreover, financing under the Capital Access Loan Program is likely to be much less expensive for a company than alternative non-bank sources of financing.

It is important that prospective Borrowers under the program understand the loan is a private transaction between the Lender and the Borrower. While the program may assist a Lender in being able to take more risk than normal, it is still the Lender that is bearing the risk of the loan and is responsible for the decision making.

CAPITAL ACCESS PROGRAM DESCRIPTION

The fundamental focus of the program is to make eligibility as broad based as possible to maximize the impact on Arkansas' economy, and to avoid second guessing private market decisions. The borrower can be a corporation, partnership, joint venture, sole proprietorship, cooperative or other entity, whether for-profit or not-for-profit, which is authorized to conduct business in the State of Arkansas.

The basic approach is to keep the program flexible so that each Lender can use the Program in a manner which best suits the needs of the Lender and its customers. Keeping the Program broad based also assists Lenders in building a portfolio to take maximum advantage of the portfolio insurance effect, thereby making the Program more attractive and useful. Moreover, the high degree of leveraging of public resources supports keeping the Program broad based.

There are, however, a relatively small number of restrictions that are either mandated by statute or are necessary to protect the basic integrity and purpose of the Program. These restrictions are described below:

Business Purpose in Arkansas - The proceeds of the loan must be used for a business purpose within the State of Arkansas. Generally, therefore, the Program is geared to Arkansas businesses. In the case of a company with multi-state operations, the key test is that the primary economic impact of the endeavor financed by the proceeds of the loan must be in Arkansas.

Exclusion of Housing - The proceeds of the loan cannot be used for the construction or purchase of residential housing. However, this is interpreted to mean permanent housing, so loans to motels or hotels, or for the construction of motels or hotels are eligible.

Passive Real Estate Ownership - The loan cannot be used to finance passive real estate ownership. Passive real estate would occur if a company were to buy land or buildings simply as an investment, without developing or improving the real estate in any way, and without intending to use it for its own business operations.

It is important to stress, however, that except for the restrictions against passive real estate ownership and housing discussed above, the Program can be used for real estate financing. For example, the Program can be used for financing a company's acquisition of land or buildings intended to be used in the business operations of the company. In addition, the Program can be used to finance the activities of a developer or builder in acquiring real estate for development, or in constructing or renovating a building. In the case of a loan to a developer for construction or renovation financing, the loan under the Program should be intended to cover the period through the construction or renovation phase. The permanent financing can also be included, if the Borrower will be the company that will use the real estate for its own business operations.

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Source of Funding – All loan submissions must include a copy of the executed note, lender statement, and documentation of the source of funding for the loan. Paramount in this process is the identification of any loan source or guaranty program involving Federal, State or Local Government funding, including but not limited to the
United States Small Business Administration (SBA), United States Rural Development (USDA), Arkansas Economic Development Commission's Minority and Women-Owned Business Enterprises Program, Local Planning District or Local Economic Development Corporation loan funds.

Census Tract and NAICS - ADFA requires that the complete 6-digit NAICS Code and complete 11-digit Census Tract be verified and accurate prior to loan submission. To be certain that the information being provided is the most precise, it is required of the Lenders, who know their clients and can clarify important details to ensure the accuracy provided by using the websites detailed below for NAICS and FFIEC.

Along with the CAP enrollment form and required documentation for loan submissions, Lenders will also need to provide a PDF of the Census Tract.

Please use the preferred links, provided here, to obtain this information to ensure that we are all working from the same updated information.

NAICS & SIC Identification Tools | NAICS Association:
https://www.naics.com/search/

FFIEC – Federal Financial Institutions Examination Council | Census Tract:
https://geomap.ffiec.gov/FFIECGeocMap/GeocodeMap1.aspx

Socially and Economically Disadvantaged Individuals (SEDI-Owned Businesses)
This transaction is supported with funding provided through the State Small Business Credit Initiative (SSBCI), a federal program that supports small business lending and investment programs in states, the District of Columbia, territories, and Tribal governments (collectively known as participating jurisdictions). SSBCI programs are designed to expand access to capital, promote economic resiliency, and create new jobs and economic opportunity. SSBCI provides funding for participating jurisdictions to support businesses owned and controlled by socially and economically disadvantaged individuals (SEDI-owned businesses).

1 SSBCI funds count toward fulfilling the "expended for" requirement for the $ 1.5 billion SEDI allocation and toward qualifying for initial eligible amounts under the $1.0 billion SEDI incentive allocation if the SSBCI funds have been expended for loans, investments, or other credit or equity support to any of the four groups of businesses set forth in Section IV.a of the SSBCI Capital Program Policy Guidelines. While a participating jurisdiction may reasonably identify group (4) businesses (i.e., those located in Community Development Financial Institution (CDFI) Investment Areas) based on businesses' addresses from the relevant

loan, investment, and credit or equity support applications, certification is required with regard to groups (1) through (3) of the Borrower/Investee Certification Related to Business Enterprises Owned and Controlled by Socially and Economically Disadvantaged Individuals.

2 The term "owned and controlled" means, if privately owned, 51 percent is owned by such individuals; if publicly owned, 51 percent of the stock is owned by such individuals; and in the case of a mutual institution, a majority of the board of directors, account holders, and the community of which the institution services is predominantly comprised of such individuals.

3 "Underserved communities" are populations sharing a particular characteristic, as well as geographic communities, that have been systematically denied a full opportunity to participate in aspects of economic, social, and civic life, as exemplified by the list in the definition of equity. Equity is consistent and systematic fair, just, and impartial treatment of all individuals, including individuals who belong to underserved communities that have been denied such treatment, such as Black, Latino, and Indigenous and Native American persons, Asian Americans and Pacific Islanders and other persons of color; members of religious minorities; lesbian, gay, bisexual, transgender, and queer (LGBTQ+) persons; persons with disabilities; persons who live in rural areas; and persons otherwise adversely affected by persistent poverty or inequality. **4** Treasury has provided a mapping tool for the borrower or investee to use to identify whether the relevant address is in a CDFI Investment Area at https://home.treasury.gov/policy-issues/small-businessprograms/state-small-business-credit-initiative-ssbci/2021-ssbci/cdfi-fund-investment-areas .
For each calendar year, Treasury will use the list of CDFI Investment Areas identified by the CDFI Fund as of January I of the calendar year. If the CDFI Fund's list is updated during that calendar year, the new list will not be adopted for purposes of SSBCI until the next calendar year, thus providing advance notice to jurisdictions. Further, Treasury has determined that American Samoa, Guam, the Northern Mariana Islands, and the U.S. Virgin Islands in their entirety constitute CDFI Investment Areas for purposes of the SSBCI, because each of these territories has a poverty rate of at least 20 percent.

Refinancing and New Extensions of Credit - *New Lenders*. Under the SSBCI statute, a lender is not prohibited from enrolling or refinancing loans previously made by another, non-affiliated financial institution. Accordingly, a lender may refinance a borrower's existing loan, line of credit, extension of credit, or other debt originally made by an unaffiliated lender so long as the proceeds of the transaction are not used to finance an extraordinary dividend or other distribution.

When a participating jurisdiction uses SSBCI funds to support the purchase of a loan from another, non-affiliated financial institution, the jurisdiction must make a determination that the transaction is beneficial to the small business borrower. For purposes of the eligible business purpose and certification requirements, the eligible business purpose of the new loan is generally determined by the purpose of the underlying funding being refinanced.

New Extensions of Credit by Existing Lenders. Financial institution lenders are generally prohibited from refinancing an existing outstanding balance or previously made loan, line of credit, extension of credit, or other debt owed by a small business borrower already on the books of the same financial institution (or an affiliate) into the SSBCI-supported program. However, a financial institution lender may use SSBCI funds to support a new extension of credit

that repays the amount due on a matured[1] loan or other debt that was previously used for an eligible business purpose when all the following conditions are met:

- The amount of the new loan or other debt is at least 150 percent of the outstanding amount of the matured loan or other debt;

- The new credit supported with SSBCI funding is based on a new underwriting of the small business's ability to repay the loan and a new approval by the lender;

- The prior loan or other debt has been paid as agreed and the borrower was not in default of any financial covenants under the loan or debt for at least the previous 36 months (or since origination, if shorter); and

- Proceeds of the transaction are not used to finance an extraordinary dividend or other distribution.

If a participating jurisdiction enrolls a loan that is used to repay principal under a loan previously made by the same financial institution or its affiliate, the participating jurisdiction or the financial institution lender must maintain records showing that these criteria were met. The limitation on refinancing does not prohibit a financial institution lender from originating a new loan under an SSBCI approved program and subsequently refinancing the same loan under any approved program.

Conflicts of Interest - A Lender is not permitted to use the program for "insider" transactions. Insider transactions are defined to include a loan to an executive officer, director or principal shareholder of the Lender, a member of the immediate family of such an executive officer, director, or principal shareholder, or to a company controlled by any of these people. The basic definitions used in this conflict-of-interest prohibition tie into basic terms used in the Federal Reserve's Regulation 0, which the Lender should be familiar with in any event for their normal operations.

Size - There are no Borrower size requirements, or minimum or maximum loan sizes. It is recognized, of course, that the structure of the Program will tend to focus on assisting small and medium sized companies. However, no arbitrary limits are provided. It should be noted however, that the maximum amount to be paid by ADFA into a Lender's earmarked reserve in connection with any one Borrower shall be $150,000 in any three-year period, unless ADFA has approved, in writing, a greater payment. With ADFA making payments between 3.00% and 7.00% of the loan amount, a $150,000 contribution would support a loan from $2.1 million to

[1] A matured loan or line of credit only includes such that have matured according to their terms and does not include a loan or line of credit that has been accelerated to maturity. Transferring an accelerated loan into an SSBCI program does not promote the purpose of expanding small business access to capital and would primarily benefit lenders rather than small businesses.

$5 million. This provision does not mean that loans exceeding this level cannot be made, only that advance authorization must be obtained. This requirement will assist ADFA in its own planning purposes.

Collection and Claims

The process for Lender loss reimbursement on loans made under the program is intended to be as routine and non-bureaucratic as the process for enrolling loans under the program. ADFA relies on the Lender to exercise reasonable care and diligence in its collection activities. If a loan gets into trouble, the program calls for the Lender to determine when and how much to charge off an enrolled loan in a
manner consistent with the Lender's normal methods for making such determination on its conventional business loans. A Lender would file a claim under the program at the time it charges off all or part of a loan. The claim may include the full amount of principal charged off, plus accrued interest, plus out of pocket expenses. If the amount of the loan that the Lender covered under the Program is less than the amount of principal charged off, then the amount of principal and accrued interest included in the claim shall not exceed the principal amount covered under the program, plus accrued interest attributable to such covered principal amount.
In keeping with the extremely non-bureaucratic nature of the Program, the claim form submitted by the lender to ADFA is only a one-page form. The program provides prompt and routine loss payment.

The program is structured so that when the Lender makes a loan and then enrolls it in the program, the Lender is automatically making a small number of representations and warranties to ADFA that the loan complies with Program requirements. If the Lender later suffers a loss on that loan and properly files the claim form, the only grounds for denial of the claim would be if the enrollment of the loan were known by the Lender to be false at the time the loan was filed for enrollment.

The claims process allows a Lender to recover its loss at the time it recognizes the loss, prior to having to exercise its collateral rights or other legal remedies in connection with the loan. However, the Lender would be expected to continue to exercise its collateral or other rights in a manner such as a conventional Lender loan. If there were a subsequent recovery from the exercise of such rights, so that the amount of loss ultimately was less than the amount for which the Lender had been reimbursed from the earmarked reserve, the Lender would put the relevant amount of the recovery, net of out-of-pocket expenses, back into the earmarked reserve. This is like the process that a Lender would follow in putting recoveries on conventional loans back into the Lender's internal loan loss reserve.

As described above, the intent of the program is for the Lender to be fully responsible for collection activities and for ADFA to stay out of the Lender's way. However, as a safeguard against the extreme situation where a Lender is abusing the intent of the program by ignoring its obligation to exercise reasonable care and diligence in its collection activities, ADFA will reserve for itself, in limited circumstances and as a last resort, the right to be subrogated to the rights of the Lender. The subrogation would apply to any collateral, security, or other right of recovery, in connection with a loan, which has not been realized upon by the Lender. This provision could only take effect after the Lender has filed a claim and has had its loss fully covered. It is hoped that ADFA will never have to exercise this right of subrogation.

Monitoring the Annual Claims Rate

The claims rate for a CAP reflects the compensation a lender may seek for borrower defaults and, accordingly, the amount of SSBCI subsidy the lender may receive. CAPs are intended to support responsible lending that is beneficial to small businesses and are not intended to subsidize high default rate business models. To ensure CAPs continue to be used consistent with these objectives, states must monitor annual CAP claims rates and review lenders whose annual claims rates exceed 6.00%. The claims rate may be measured by either total capital or number of loans in a 12-month period. The state may determine to disallow a lender from enrolling any additional CAP loans if the state determines the lender’s practices do not meet program standards or is using the CAP to offset the costs of high default rate lending. Treasury will monitor CAP annual claims rates annually.

Maintenance of the Reserve Fund

A central concept of the Program is that ADFA owns the funds in the Lender's earmarked reserve, but that these funds are legally dedicated solely to cover losses on loans made by the Lender under the Program. Legally, ADFA pledges the funds in the reserve fund to be available to pay claims on loans under the Program.

For administrative convenience for both ADFA and the Lender, and to provide an extra benefit to the participating Lender, it is the plan of ADFA to open an account at the Lender and deposit the monies in the Lender's earmarked reserve right at the Lender (if Lender is a bank). The plan, as it has been implemented, involves establishing a money market deposit account in ADFA's name at the Lender's published rate of interest.

Although the above procedure is consistent with the full intent of ADFA, and there are no plans to do otherwise, the legal Agreement between the Lender and ADFA does not bind ADFA to maintain the funds in a deposit account at the Lender. For example, if a Lender abuses the intent of the program, ADFA will have the flexibility to close that deposit account and deposit the monies in the reserve elsewhere. However, this would not change the legal status of the reserve as dedicated solely to cover losses from loans that the Lender makes under the

program. Moreover, if ADFA does not deposit the funds in an account at the Lender, the funds may be invested or deposited only in 1) direct obligations of the United States government, or in obligations the principal and interest of which are unconditionally guaranteed by the United States or, 2) a deposit account at a federally insured depository institution.

Half of the interest earned on the funds in the Lender's earmarked reserve will stay in the reserve, to help it grow. ADFA is authorized to withdraw the other half of the interest, for use by ADFA for whatever use the ADFA Board determines.

Although ADFA technically owns the funds in the reserve, it is intended and expected that Lenders will develop a proprietary interest in the reserve. The reserve takes on the character of an 'off balance sheet' asset of the Lender, which enables it to be more aggressive in its lending activities. The Lender controls the amounts of payments going into the reserve, and the reserve is reduced only when a Lender suffers a loss on a loan made under the Program. The Program rewards good performance, in that as loans are successfully paid off, the funds stay in the reserve, and increase over time through the earning of interest. However, if at some point in the future, the Lender were to completely drop out of the Program, and after all the loans previously made had all been paid off, ADFA would ultimately be able to withdraw the funds from the reserve.

Lenders sometimes ask why they would not be able to get back some or all the funds from the reserve, if they have dropped out of the Program, and the loans have been paid off. The primary answer is that a key provision in maintaining the structural integrity of the Program is that the Lender can only gain access to the funds in their reserve to cover losses on loans made under the Program. If a Lender knew that it could ultimately withdraw funds from the reserve after dropping out of the Program, this might create an incentive for the Lender to put conventionally 'lenderable' loans under the Program, because the Lender might reason that it will ultimately get the money back anyway. By contrast, if the only way that a Lender can gain access to the funds in the reserve is to cover losses from its Program loans, the only way that a Lender can get any advantage from the program is to use it for its intended purpose, as a flexible tool to enable the Lender to expand its market by taking more risk.

The Program contains a formula for addressing the effective dropping out of the Program by the Lender. If for a consecutive 36-month period the amount in the reserve fund continuously exceeds the outstanding balance of all the Lender's enrolled loans made since the beginning of the Program, ADFA is authorized to withdraw any such excess to bring the reserve down to an amount equal to 100% of the outstanding balance. As a practical matter, this formula would only come into play for a Lender that has effectively dropped out of the Program. Even if a Lender has been inactive for a long period, if it begins making loans during the 36-month period, the aggregate outstanding balance will generally quickly exceed the reserve.

The formula is intended to give ADFA the ability to withdraw funds from the reserves earmarked for Lenders that have effectively dropped out of the Program, but to do it in a manner that in no way jeopardizes the protection that the reserve provides for any loans still outstanding.

The Process for a Lender to Sign Up for the Program

ADFA Board has approved a master form of Agreement to be separately entered into between ADFA and each Lender that wishes to participate in the Program. Entering into this Agreement does not commit a Lender to make any loans under the Program but does spell-out the full and official parameters that apply if a Lender makes loans, and the obligations of ADFA and the Lender under the Program.
In its resolution approving the form of Agreement and authorizing ADFA staff to enter into such Agreements, the ADFA Board stated that "it is the policy of the Board that such Agreements should be entered into with any depository institution, which has its principal office located in Arkansas, that wishes to enter into such Agreement and that has sufficient experience and capacity to participate in the Program, and that such depository institution should be considered to have such experience and capacity absent any credible evidence to the contrary."

Consistent with the entire approach to the Program, the process for a Lender to sign up is being kept simple and routine. Staff is utilizing a half-page application form to obtain information on a depository institution's year-end commercial and industrial loans outstanding for each of the last three years. Absent any credible evidence that a depository institution lacks sufficient experience and capacity to participate in the program, staff is signing up lenders that wish to participate by entering into the Agreement.

Early-Stage Incentives

How does a Lender proceed in the early stages of its participation in the Program before a substantial reserve has been built up? Many Lenders will understandably tend to be rather cautious initially. As the reserve begins to build, and as the Lender gains more experience under the Program, the Lender may gradually evolve to a more aggressive posture, expanding its margin that much further.

Even if a Lender is unfortunate enough that one of its early loans in the Program gets into trouble, it is likely to be some time before the loan defaults, and by that time hopefully the Lender will have a portfolio of loans and have built an adequate reserve. Nevertheless, other things being equal, there is some extra risk attached to these early loans made before a substantial reserve has built up.

To assist a Lender to build up the reserve more rapidly and to address risk issues in the early stages of a Lender's participation in the Program, two special features have been included in the Program.

CAPITAL ACCESS PROGRAM DESCRIPTION

1) The first special feature applies to the first $1 million of loans that a Lender makes under the Program. This feature provides that ADFA will contribute a greater portion to the reserve. While the minimum and maximum payments for the Borrower and the Lender would remain the same, ADFA, rather than simply matching 100% of the combined total of the Borrower and the Lender, will instead contribute an amount equal to 150% of the combined total of the Borrower and the Lender. Thus, in the minimum case, the Borrower contributes 1.50%, the Lender 1.50%, and ADFA 4.50%, for a total of 7.50%. In the maximum case, the Borrower would contribute 3.50%, the Lender 3.50%, and ADFA 10.5%, for a total of 17.50%. This special feature is designed to help build the reserve more rapidly, and to give the Lender an extra incentive to begin to use the Program.

2) The second special feature applies to the first $1 million of loans that a Lender makes under the Program. If one of those loans suffers a loss, that at the time of the loss there is not enough in the reserve to fully cover that loss, the Lender would initially be able to withdraw all the amount in the reserve at the time of the loss, to cover the loss as much as possible. The lender then continues making loans under the Program and begins to build the reserve back up, the Lender would be allowed to withdraw from the reserve at a subsequent time to fully recover the earlier loss. The only restriction is that the amount subsequently withdrawn to cover the earlier loss cannot exceed 75.00% of the amount in the reserve immediately prior to such subsequent withdrawal. Thus, even at the beginning of its participation in the Program, the Lender has the comfort of a portfolio insurance effect, because it knows that in the long term, its losses are kept to a reasonable level, it will be fully protected against loss, and the Lender will not suffer due to early losses.

To be able to implement the Program in a fully non-bureaucratic manner, ADFA needs to be able to prevent the Program from being abused. So that ADFA can move quickly, if necessary, to stop abuses, ADFA retains, in the legal Agreement entered with each participating Lender, the absolute discretion to terminate a Lender from the right to make new loans under the Program. The status of loans already made under the Program is not affected. Obviously, ADFA's objective is to have as many Lenders as possible use the Program successfully. ADFA's intention is to enforce this provision against a particular Lender, only if such Lender has exhibited a pattern of abuse of the Program.

CAPITAL ACCESS PROGRAM DESCRIPTION

A successful submission for CAP enrollment should begin by notifying ADFA via email with attachments that include:

- **Enrollment Form – Completed and Executed by Lender**
- **Borrower's Representations Regarding Reserve Fund – Executed by Borrower**
- **Source of Funding Documentation – Executed by Borrower(s)**
- **SSBCI Certifications (necessary only with SSBCI funding) – Completed and Executed by the Borrower**
  - SSBCI Demographic Reporting Input Form
  - Borrower/Investee Certification Related to Business Enterprises Owned and Controlled by Socially and Economically Disadvantaged Individuals (SEDI Owned Businesses)
  - Access to Records – Participation Agreement Certification
  - Borrower/Investee Use of Proceeds and Conflict of Interest Certification
  - Sex Offender Lender/Borrower Certification (Loan/Credit Program)
- **SSBCI Certifications (necessary only with SSBCI funding) – Completed and Executed by the Lender**
  - Lender/Investor Use of Proceeds and Conflict of Interest Certification **(submitted with each SSBCI enrollment request)**
  - Sex Offender Lender/Borrower Certification (Loan/Credit Program) **(submitted with each SSBCI enrollment request)**
- **Census Tract PDF (using the address associated with the business)**
- **Lender ACH/Wire Deposit Form – or – Check for Borrower/Lender Contributions to the Reserve Fund**

Kimmy Helble, Program Administrator **|** Charles Cathey, VP Development Finance

Email: Kimberly.Helble@Arkansas.gov CC: Charles.Cathey@Arkansas.gov

Once ADFA is notified via email, then promptly mail the enrollment forms to:

ADFA
Attn: Kimmy Helble, CAP Administrator
P.O. Box 8023, Little Rock, AR 72203-8023

CAPITAL ACCESS PROGRAM DESCRIPTION

SAMPLE LOAN "A"

Assume a loan amount of $50,000.00 where the Lender elects to enroll the entire $50,000.00 loan amount and charge the Borrower 1.50%; based on the size of the Lender enrolled portfolio, the Reserve Account Contribution would be calculated as follows:

Lender Portfolio < $1,000,000.00	
Loan Amount	$50,000.00
Enrolled Amount	$50,000.00
Borrower Reserve Contribution	$ 750.00
Lender Reserve Contribution (Can be charged to Borrower)	$ 750.00
SSBCI Reserve Match	$ 1,500.00
ADFA Reserve Match @ 150% (Portfolio < $1,000,000.00)	$ 2,250.00
Total Reserve Account Contribution	$ 5,250.00

Lender Portfolio > $1,000,000.00	
Loan Amount	$50,000.00
Enrolled Amount	$50,000.00
Borrower Reserve Contribution	$ 750.00
Lender Reserve Contribution (Can be charged to Borrower)	$ 750.00
SSBCI Reserve Match	$ 1,500.00
ADFA Reserve Match @ 100% (Portfolio > $1,000,000.00)	$ 1,500.00
Total Reserve Account Contribution	$ 4,500.00

CAPITAL ACCESS PROGRAM DESCRIPTION

SAMPLE LOAN "B"

Assume a loan amount of $250,000.00 where the Lender elects to enroll only $200,000.00 of the loan amount and charge the Borrower 2.00%; based on the size of the Lender enrolled portfolio, the Reserve Account Contribution would be calculated as follows:

Lender Portfolio < $1,000,000.00	
Loan Amount	$250,000.00
Enrolled Amount	$200,000.00
Borrower Reserve Contribution	$ 4,000.00
Lender Reserve Contribution (Can be charged to Borrower)	$ 4,000.00
SSBCI Reserve Match	$ 8,000.00
ADFA Reserve Match @ 150% (Portfolio < $1,000,000.00)	$ 12,000.00
Total Reserve Account Contribution	$ 28,000.00

Lender Portfolio > $1,000,000.00	
Loan Amount	$50,000.00
Enrolled Amount	$50,000.00
Borrower Reserve Contribution	$ 4,000.00
Lender Reserve Contribution (Can be charged to Borrower)	$ 4,000.00
SSBCI Reserve Match	$ 8,000.00
ADFA Reserve Match @ 100% (Portfolio > $1,000,000.00)	$ 8,000.00
Total Reserve Account Contribution	$ 24,00.00

CAPITAL ACCESS PROGRAM DESCRIPTION

CAPITAL ACCESS LOAN PROGRAM

NOTICE TO INTERESTED LENDERS

This program is specifically designed to be a simple enrollment process with a one-page enrollment form, completed required SSBCI documents, and payment for the Borrower and Lender reserve contributions, is all that is needed to enroll a loan in the program.

Average processing time is 3 to 5 business days.

Only a one-page form is needed to file a claim against the bank's CAP Reserve Fund.

This loan program has been a lending incentive for working capital loans for several types of industry within the state, i.e., Agriculture, Manufacturing, Wholesale/Retail, Construction, Transportation, Information, Finance & Insurance, and many other Services.

If you are interested in finding out more about this Program, contact:

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