Government of the District of Columbia
Vincent C. Gray, Mayor
Department of Insurance, Securities and Banking

COLLATERAL SUPPORT PROGRAM

The **District of Columbia Collateral Support Program (DCCSP)** provides a pledged asset (Cash Collateral Account) to an enrolled lender in order to enhance the collateral coverage of a small business borrower that is otherwise qualified but unable to meet the lender's security requirements. The Cash Collateral Account will then be pledged as collateral on behalf of the borrower on a transaction by transaction basis and located at the participating lending institution or at other designated insured depository financial institution in the name of the District of Columbia Collateral Support Program.

This document is intended only as guidance to Participating Lenders and not as a substitute for the terms in the Lender Participation Agreement, the Cash Collateral Deposit Agreement, the Microloan fund law and implementing regulations, and the Treasury Guidance and Allocation Agreement with the government of the District of Columbia.

What is the process for enrolling a loan in the collateral support program?

1. Borrower and Loan Eligibility - Lender must determine whether the borrower is an eligible borrower requesting credit for an eligible business purpose.
2. CBE Certification - The Borrower must be certified by the Department of Small and Local Business Development (DSLBD) as a Certified Business Enterprise (CBE). Lender must provide a copy of Borrower's CBE certification or a receipt from DSLBD as evidence that the borrower has applied for CBE certification.
3. Underwriting - Lender underwrites the loan according to its own underwriting criteria.
4. Pre-Approval - Lender submits a complete loan package to DISB for preapproval
5. Closing – Lender and Borrower close the Loan and DISB funds the cash collateral account.

Borrower and Loan Eligibility

1. Eligible Lenders. Eligible lenders include any federally insured bank or credit union in good standing with its appropriate regulating authority as well as Community Development Financial Institutions (CDFIs) with sufficient commercial lending experience, financial and managerial capacity, and operational skills to meet the objectives of the DCCSP. To participate in the DCCSP, an eligible lender must provide to DISB: 1) a signed Lender Participation Agreement; 2) a certification that the lender is in compliance with 31 CFR 103.121; 3) a certification that the lender has 20% of its own capital at risk; 4) a certification that no principal of the lender has been convicted of a sex offense against a minor; and 5) any other document necessary for compliance with the program.

2. Eligible Borrowers. Eligible borrowers are corporations, partnerships, joint ventures and sole proprietorships, including their affiliates and subsidiaries, and must have 750 or fewer employees at the time the loan is enrolled in the DCCSP. Eligible borrowers must also certify that no principal of the borrowing entity has been convicted of a sex offense against a minor. In addition, the Collateral Support Program may only provide collateral support for Certified Business

Enterprises (CBEs). A CBE is a business certified by the Department of Small and Local Business Development and was created to sustain and/or increase the level of business activity, job creation and retention, and provide access to capital.

3. Ineligible Borrowers. A borrower is not eligible if:
    a. the borrower is an executive officer, director, or principal shareholder of the lender enrolling the loan; a member of the immediate family of an executive officer, director, or principal shareholder of the lender enrolling the loan;
    b. the borrower's business is engaged in speculative activities that develops profits from fluctuations in price rather than through normal course of trade, such as wildcatting for oil or dealing in commodities futures, unless those activities are incidental to the regular activities of the business and part of a legitimate risk management strategy to guard against price fluctuations related to the regular activities of the business; the borrower's business earns more than half of its annual net revenue from lending activities, unless the business is a Community Development Financial Institution;
    c. the borrower's business is engaged in pyramid sales, where a participant's primary incentive is based on the sales made by an ever-increasing number of participants; or
    d. the borrower's business is engaged in activities that are prohibited by federal or District of Columbia law.

4. Eligible Use of Loan Proceeds. The loan proceeds must be used for a "business purpose," including, but not limited to start-up costs, working capital, business acquisitions and expansions, equipment loans, inventory financing, commercial real estate acquisitions and construction. However, loan proceeds may not be used:
    a. to repay delinquent federal or District of Columbia income taxes unless the eligible recipient has a payment plan in place with the relevant taxing authority;
    b. to repay taxes held in trust or escrow, for example, payroll or sales taxes;
    c. to reimburse funds owed to any owner, including any equity injection or injection of capital for the business's continuance;
    d. to purchase any portion of the ownership interest of any owner of the business;
    e. to acquire or hold passive investments;
    f. for refinancing of existing debt from the same lender, unless additional principal is added to the refinanced amount.
    g. for legal or illegal gambling; or
    h. for evangelizing, proselytizing, or lobbying.

5. Eligible Loan Amount. For the DCCSP, the maximum aggregate outstanding loan amount(s) that may be enrolled for any single Borrower or any common enterprise in which the Borrower has an ownership interest is $5,000,000. However, the maximum collateral support that can be offered on any loan is $1,000,000. The entire proceeds of the loan must be used for projects within the District of Columbia.

6. Personal Guarantees. Personal guarantees are required from any individual holding a twenty percent (20%) or more ownership interest in the borrower.

7. Loan Refinances. Loans with the same lender or its affiliate may be refinanced and enrolled in the Program, but only to the extent additional principal is added above the refinanced amount. The additional principal amount, and only that amount, is eligible for DCCSP. However, a loan refinanced from a different lender may be enrolled in the program.

8. Lines of Credit Balances. For the purposes of this Agreement, fluctuations in the outstanding balance of a line of credit, without increasing the covered amount under the Program, will not be deemed to be a refinancing of the loan.

CBE Certification

A Certified Business Enterprise (CBE) is a business certified by the Department of Small and Local Business Development (DSLBD). In order to participate in the DCCSP a business must be certified by DSLBD as a CBE.

The CBE certification process includes the following steps:

1. Pre-Certification Orientation (not applicable for recertification, upgrade, and joint venture certification);

2. Begin online CBE Application and gather required documents from Required Documents Checklist;

3. Schedule One-on-One Consultation by signing up for a 'One on One Application Consultation', and immediately submit complete online application at 'CBE Application Online;

4. Wait to receive final appointment confirmation from a Certification Specialist;

5. Attend One-on-Consultation, and bring all checklist documents for submission to DSLBD; and,

6. DSLBD review and determination

For more information on CBE Certification and the list of current CBE's, please visit the DSLBD website at:
http://dslbd.dc.gov/DC/DSLBD/Doing+Business+in+the+District/Certify+Your+Business

Underwriting

The underwriting criteria are determined solely by the lender; however, DISB will review how the lender has valued the borrower's collateral and ensure that these criteria are applied consistently across all loans in the Lender's portfolio.

DISB will also review the loan and program documents to ensure that the transaction is in compliance with the Collateral Support Program. DISB will verify that loan meets all U.S. Treasury and District of Columbia laws, regulations and guidance.

Pre-Approval

A complete loan package for pre-approval shall consist of:

1. The Loan Enrollment Form
2. Cash Collateral Deposit Agreement
3. Borrower and Lender Certifications
4. Proof of CBE Certification
5. The loan application submitted by the Borrower to the Lender
6. The Loan Agreement
7. The Note
8. The Security Agreement(s)
9. Personal Guarantee from each individual with at least 20% ownership in the Borrower
10. The Borrower's business plan
11. The most recent 3 years financial statements and tax returns for the Borrower
12. The most recent 3 years tax returns from individuals with an ownership interest of 20% of greater in the Borrower
13. Copies of the Borrower's incorporation documents or partnership agreement
14. Copy of Current Business License, if applicable

When the Borrower and the loan are determined to be eligible, DISB will pre-approve the cash collateral deposit. The pre-approval means that the District will reserve the collateral support needed to close the loan for 30 days. The Lender will receive a pre-approval letter with any final conditions and closing instructions via email.

Closing

1. Lender schedules closing with borrower, borrower signs all loan documents including DCCSP Cash Collateral Deposit Agreement and any other applicable DCCSP documents. At closing the Lender will also collect the 2% DCCSP closing fee.
2. Lender couriers the complete closing package to DISB including a check for 2% of collateral deposit amount.
3. DISB will review signed loan documents and email final approval and verify routing information.
4. DISB authorizes transfer of collateral support deposit to cash collateral account.
5. If loan does not close within 30 days, DCCSP reserves the right to withdraw funds.