

**Statement of
Patrick Woodie, Vice President, Rural Development Programs
The North Carolina Rural Economic Development Center, Inc.**

Before the

**Committee on Small Business and Entrepreneurship
U.S. Senate**

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Thank you, Chairman Landrieu, Ranking Member Snowe, and Members of the Committee for this opportunity to report on North Carolina's implementation of the North Carolina Capital Access Program, the statewide response to the opportunity afforded by the State Small Business Credit Initiative of the 2010 Small Business Jobs Act.

I am Patrick Woodie, Vice President of Rural Development Programs for the North Carolina Rural Economic Development Center. For more than 20 years, our nonprofit organization has developed, promoted and implemented sound economic strategies to improve the quality of life for rural North Carolinians.

Typically, the Rural Center works in 85 of North Carolina's 100 counties. The North Carolina Capital Access Program is the exception. At the request of North Carolina's Governor, Beverly Perdue, the Rural Center is leading this *statewide* effort to spur new job creation and business investment. While the State Small Business Credit Initiative offers states the flexibility of using their allocation in numerous ways to boost small business lending, North Carolina has elected to invest its full allocation in the Capital Access Program, or NC-CAP.

The Rural Center has a 14-year history of operating this program. In 1994, North Carolina was one of the first states outside of Michigan to adopt a CAP program. From 1994 to 2007, NC-CAP enrolled 1,850 loans totaling \$103 million and leading directly to the creation or retention of more than 27,000 jobs. This was accomplished with an allocation of \$3.6 million from state appropriations and other sources.

Today, thanks to the Small Business Jobs Act, NC-CAP has been re-launched on a fundamentally larger scale. North Carolina will receive \$46.1 million that is expected to enable up to \$800 million in small business lending to more than 10,000 businesses.

NC-CAP is a voluntary, loan-loss reserve portfolio insurance program. Eligible lending institutions (which include banks, CDFIs and federally insured credit unions) elect whether to participate. The program allows a bank to mitigate the risk of its small business lending. For loans enrolled in the program, the borrower and/or the lender pays a fee of 2 to 7 percent. NC-CAP matches that amount, and the combined total is deposited into a loan loss reserve account at that lending institution. As more loans are enrolled, the reserve pool grows. In the event of a default on an NC-CAP loan, the lender may draw upon the reserve pool to cover the loss.

Lenders are solely responsible for underwriting the loans and defining terms. Loans may be used to buy land, construct or renovate buildings, purchase equipment or provide working capital.

Why does North Carolina believe in this program? First, it's cost effective. For every \$1 we invest, a lender will typically make \$20 in small business loans. Second, it's non-bureaucratic. Paperwork is minimal, and the process is seamless for the borrower. Finally, it's proven. Not only do we draw upon our own experience, but more than 30 states have successfully operated CAP programs.

Last December, North Carolina joined Michigan as the first two states to apply under the State Small Business Credit Initiative. In January, both states executed contracts on the same day to draw down our respective allocations. In February and early March, the Rural Center held 11 briefing sessions across North Carolina to roll out the program. These briefing sessions drew hundreds of participants, including banks, other lenders, technical assistance providers, and small business owners.

Today, 26 lenders -- including 23 banks, 2 CDFIs and one credit union-- have enrolled in NC-CAP. These 26 lenders represent 30 percent of all branch bank locations in the state. 95 of North Carolina's 100 counties have a lending institution currently offering the program. Another 15 lenders are in the process of signing up, and we continue to recruit others. Our staff has made face-to-face contact with each of North Carolina's 130 banks, as well as our credit unions and CDFIs.

North Carolina enrolled the first loan in the country using the federal allocation. At this early stage, we have 14 loans enrolled —going to businesses ranging from restaurants to logging to air cargo-- and we anticipate a rapid escalation in enrollments. In three weeks, we embark on a statewide publicity campaign.

The leadership of several important partners is noteworthy: First, Senator Kay Hagan who knows our organization well and who gave her support to this important legislation; and secondly, our Governor who has seized upon the opportunity afforded by the State Small Business Credit Initiative. We are very appreciative of the efforts of BB&T President and CEO Kelly King to embrace and promote the program to his fellow CEOs. As a former chairman of the Rural Center Board of Directors, Kelly was instrumental in bringing the CAP program to North Carolina in the first place. We also appreciate our partners in the State Small Business Credit Initiative Office of U.S. Treasury. They have been very responsive to our needs and concerns and to helping ensure the success of our efforts in North Carolina.

Our state has suffered severe losses from the recent recession. Now, as we begin to see signs of an improving economy, this new program is finding its legs. It couldn't be happening at a better time to stimulate the business and job growth we desperately need.