



Loan Loss Reserve Provision and Capital Access Program Overview

A loan loss provision is an expense set aside as an allowance for uncollected loans. This provision is an expense item that adds to (or can subtract from) the loan loss reserve. These subtractive expenses can be the result of a number of factors associated with potential loan losses, including bad loans due to customer defaults, unrecoverable collateral or losses attributed to unsecured lending. The additive expenses are generally contributions to the loan loss reserve either from the lender or from programs such as proposed by HB 4033 in which borrower fees and state matching fees are being deposited into a controlled account. As the lender makes riskier loans, larger reserves are required to offset losses incurred by loan defaults.

The State's process with the existing Capital Access Program (CAP), a program that contributes to loan loss reserves for banks and credit unions, has a very streamlined application process and has a nominal administrative burden on the lender. The process for HB 4033 would be similar with a few additional requirements because the lenders are not regulated (held to higher standards of underwriting, collateralization, loan monitoring, collections and provisions for loan losses by federal and state regulators and auditors):

- Lender submits an application for the project to enroll in the program (<http://www.oregon4biz.com/assets/apps/CAPapp.pdf>)
 - For HB 4033 this would also include the lenders approved credit memo
- The department reviews the application and credit memo to ensure that the project is eligible, that the credit structure is eligible.
- If additional supporting documentation is necessary, the department communicates the request for supplemental information with the lender
 - E.g. If personal credit card debt is being refinanced with the proceeds, the department may request verification that the refinanced expenses are business related (credit card statements and receipts and/or invoices paid)
- Once a project is determined to be eligible, the department will determine if the match is a single match or double match based upon program criteria and supporting documentation
- The request for payment is submitted to the departments accounting team and the payment is mailed the following business day.
- Total processing time for complete CAP applications is between 24-48 hours.
 - HB 4033 lenders could anticipate similar processing times for complete applications