



99 Kings Highway, Dover, DE 19901  
(302) 739 4271  
business@delaware.gov

**DATE:** October 26, 2023

**TO:** Cash Management Policy Board  
Office of the State Treasurer

**FROM:** Regina Mitchell  
Division of Small Business  
99 Kings Hwy.  
Dover, DE 19901  
302-672-6843  
Regina.Mitchell@delaware.gov

**SUBJECT:** Delaware Capital Access Program (DCAP) Reserve Accounts

Regarding our recent discussion surrounding the Delaware Capital Access Program (DCAP) Reserve Accounts to be established with Participating Lenders, the intent of this memo is to provide the Cash Management Policy Board (CMPB) with more information regarding the program and its unique characteristics.

On March 11, 2021, President Biden signed The American Rescue Plan Act, which provides for the reauthorization and expansion of the State Small Business Credit Initiative (SSBCI). The State of Delaware has appointed the Division of Small Business (DSB) as the implementing entity to execute Delaware's approved SSBCI plan. One of the programs Delaware has elected to utilize in an effort to provide capital to underserved Delaware communities is the Delaware Capital Access Program.

The DCAP program is designed to give lenders a tool to make business loans that may not normally qualify for a conventional bank loan, in a manner consistent with safe and sound lending practices, particularly in underserved communities or for underrepresented populations. The program acts as a risk-pooling concept, with lenders, borrowers, and Delaware (with federal SSBCI funding and Delaware Strategic Fund funding), each making a deposit into a "Reserve Account" held with each Participating Lender. A reserve account is not an operating account used by DSB, and it is not used to carry out day-to-day banking services. Reserve accounts, while the property of the DSB, are intended to be held in good faith with Participating Lenders, who can submit a formal claim request to the DSB in the event that a borrower enrolled in the DCAP program defaults on their loan. Participating Lenders tend to be

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Community Development Financial Institutions, or Federal Credit Unions, whose goals align closely with helping provide capital to underserved communities.

The unique characteristic of CAP programs in relation to Delaware's Cash Management Policy Board, is that the DSB may, from time to time, request opening a demand deposit account with a Participating Lender that is not a state local banking partner (M&T, TD, Citizens). In DSB's experience overseeing programs that support underserved small businesses, large national banks are sometimes less inclined to participate in our DCAP program for a variety of reasons, one of which is that they tend to be less focused on providing capital to underserved communities relative to CDFIs. We could establish our reserve accounts exclusively with local banking partners, but we would in effect be rewarding non-participating lenders with deposits from our participating lenders. In addition, as the state receives SSBCI funding in three tranches, which are released only upon the allocation of at least 80% of the prior tranche, the DSB attempts to provide as much incentive to participate in the DCAP program as possible.

The DSB would prefer, if possible, to be able to alert the CMPB of any participating lender reserve account that the DSB wishes to establish, and to establish that account, prior to receiving approval from CMPB. This would allow the DSB to efficiently and effectively engage with potential Participating Lenders, thereby increasing access to capital for Delaware's underserved communities.

The SSBCI program is a federally created program that DSB must fully implement and execute. DCAP is a type of Capital Access Program that was approved by the U.S. Treasury to be used as a vehicle for deploying SSBCI funds in Delaware. The DCAP program is reliant on Participating Lenders to deploy capital.

Del-One Federal Credit Union is currently the only Participating Lender in our DCAP program, but we are also engaged in discussions with the following lenders: Fulton Bank, First Citizens Community Bank, Dover Federal Credit Union, True Access Capital, and County Bank. DSB has found that lenders that have a focus on community outreach and development are most eager to participate in SSBCI programs. It is important to note that lenders also need to demonstrate financial health and stability prior to participating by submitting the following, depending on the type of lending institution: UBPR Report, UBPR peer group analysis, FPRs from the NCUA, AERIS rating, audited financial statements, self-certification that the institution is not operating under formal enforcement action for unsafe or unsound lending practices.

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If you have any questions, please feel free to contact me.

Sincerely,

A handwritten signature in black ink that reads 'Regina Mitchell'. The signature is written in a cursive, flowing style.

Regina Mitchell  
Director

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