

California Pollution Control Financing Authority

CalCAP Collateral Support Program Summary

Revised as of 08/06/2020

CalCAP Collateral Support (CalCAP CS) encourages banks and other financial institutions to make loans to small businesses. CalCAP CS pledges cash to cover the collateral shortfall of a loan in order to enable financing that otherwise might not be available to small businesses which have a strong credit profile except for a collateral shortfall.

Eligible Lenders

Any federal or state-chartered bank, savings association, federally certified Community Development Financial Institution (CDFI), or credit union is eligible to participate in CalCAP CS. A lender must certify that it is in good standing with its regulatory body (Federal Reserve, Federal Deposit Insurance Corporation (FDIC), Comptroller of Currency, Thrift Supervision, National Credit Union Administration (NCUA), or state banking authority). Existing CalCAP lenders, who meet the above requirements, are already eligible to participate in CalCAP CS with the submission and approval of an amended [Financial Institution Application](#). To become a participating lender in the CalCAP CS, submit [Financial Institution Application](#) to CalCAP@treasurer.ca.gov.

Eligible Small Businesses

An eligible borrower must be in one of the industries listed in the [North American Industry Classification System \(NAICS\)](#) codes list, must not be prohibited by the CalCAP Statutes and [Regulations](#), and have **750 employees or fewer**. Prohibited business activities include, but are not limited to: adult entertainment, the sale and use of firearms, the sale and use of tobacco and tobacco products, bars and liquor stores, the sale of medicinal and recreational cannabis, and gambling as further detailed in the CalCAP regulations. The borrower must have their "Primary Economic Effect" in California where one of the following conditions exists: at least 51% of the total revenues of the business activity are generated in California; or at least 51% of the total jobs of the business are created or retained in California.

Eligible Uses of Loan Proceeds

Loan proceeds can be used for start-up costs, working capital, franchise fees, equipment, inventory, and the purchase, construction, renovation or improvements of an eligible place of business. Loan proceeds may be used to purchase any tangible or intangible assets. Lenders may also enroll bridge loans needed prior to the borrower obtaining permanent financing or support, including but not limited to SBA 504 bridge loans. Bridge loans are loans needed prior to obtaining permanent financing or support where the lender is at increased risk pending future take-out financing or guarantee.

The same limitations on loan refinancing that apply under the CalCAP Loan Loss Reserve program also apply to loans enrolled in CalCAP CS.

When refinancing debt held at a different lending institution (lender A to lender B) the following criteria must be met:

- The use of proceeds on the original loan and any subsequent refinances must have been for an eligible purpose under the Program. Documentation must be retained in the loan file to substantiate the eligibility of the original loan.
- The business activities must be eligible for support under the Program.

When refinancing existing debt held at the same lending institution (lender A to lender A) the following criteria must be met:

- The original loan must have been for an eligible purpose. The new loan shall include a new extension of credit.
- The new loan shall be based on new underwriting.

Ineligible Uses of Loan Proceeds

CalCAP CS prohibits financing of non-business purposes, passive real estate, residential real estate, reimbursing funds owed to an owner, repaying delinquent taxes or taxes held in trust or escrow, and any portion of a SBA loan or other government guaranteed loan.

Loans Eligible for Enhanced Collateral Support

The CalCAP CS program offers enhanced terms of support for “green” loans, manufacturing loans, and loans under \$250,000, all further defined as follows:

1. Loans to be used primarily for supporting new or expanded business processes, products, services, and tenant improvements consistent with specific state policy goals or regulations furthering energy and water conservation, alternative energy and environmental protection.
2. Loans to provide working capital to contractors and other businesses providing specific services furthering energy and water conservation, alternative energy and environmental protection.
3. Loans to be used primarily for new or expanded production of materials and products for use or sale using labor and machines, tools, chemical and biological processing, assembly or formulation.
4. Loans from \$50,000 to \$250,000.

Program Guidelines

Table A outlines the collateral support contribution rates for each type of loan depending on the size and term of support.

Table B provides the fees associated with loan enrolled, depending on the type of loan and term of the support. The percentage provided is calculated based on the main collateral support amount.

Table C provides the incremental recapture schedule.

COLLATERAL SUPPORT

Table A

Loan Type	Maximum Collateral Support Contribution <small>*per loan & borrower *including both general & SAC contributions</small>	Support Rate	Maximum Term of Support
The SAC cannot exceed 25% (or 1/4) of the total contribution.			
Green & Manufacturing Loans \$50,000 to \$20,000,000	\$2,500,000	Up to 40% of the loan value + 10% for business located in SAC	4 Years
Other Small Business Loans \$50,000 to \$250,000	\$500,000	Up to 40% of the loan value + 10% for business located in SAC	4 Years
Other Small Business loans greater than \$250,000 to \$20,000,000	\$500,000	Up to 30% of the loan value + 7.5% for business located in SAC	4 Years

**Borrowers who have multiple supported loans may not exceed the Maximum Collateral Support Contribution.*

Lenders set all the terms and conditions of the loans. Loans can be short- or long-term, have fixed or variable rates, and bear any type of amortization schedule. The term of the support requested will be at the lender’s discretion, not to exceed the original term of the loan or 4 years, whichever is less. Lenders are free to determine the amount of collateral support they wish to request within the terms described in Table A, and may also choose to reduce the collateral coverage at any time for any reason. Based on the review of the lender’s application and risk assessment for each loan, the Executive Director makes the final determination as to the terms and conditions of the collateral support provided.

FEES
TABLE B

Original Term of Support	Eligible Green and Manufacturing Loans	Bridge Loans	Small Business Loans
≤ 12 months	0.50%	0.50%	0.50%
12.1 months - 24 months	0.75%		0.75%
24.1 months - 36 months	2.00%	2.00%	2.00%
36.1 months - 48 months	2.75%	2.75%	2.75%
There is a minimum fee of \$1,000 for all loans. Fees will not be charged on the Severely Affected Community portion of the support.			

Term Loans

- A one-time fee will be assessed on the support amount at closing according to Table B.

Lines of Credit

- A fee will be assessed on the support amount at closing according to Table B.
- Lenders may request renewals of support for lines of credit. Requests must be made prior to the maturity of the line and accompanied by a new risk assessment of the borrower showing new or updated underwriting. A 1% fee will be assessed on the general support amount for each annual renewal on lines of credit.
- Lines of credit may only be renewed for a maximum of 4 years from initial date of disbursement.

Bridge Loans

- A 0.5% fee will be assessed on the support amount at closing for bridge loans up to 24 months according to Table B.



- Extensions will be allowed for bridge loans upon proper documentation being submitted to CalCAP CS. There is no fee associated with an approved extension should the original term of support not exceed 24 months. If the effect of any extension or series of extensions would increase the total term of support for the bridge loan into a tier associated with a higher fee, then any difference between the fees paid at closing and the newly calculated fees associated with the amended term of support would be charged upon approval of the extension

INCREMENTAL RECAPTURE SCHEDULE

TABLE C

Original Term of Support	Annual Review			
	1	2	3	4
0-12 Months				
12.1-24 Months	50			
24.1-36 Months	33.33	33.33		
36.1-48 Months	25	25	25	

*Inapplicable to bridge loans

-  equal to the percent of the original contribution amount
-  repayment of entire support upon support expiration

On an annual basis, in conjunction with the loan anniversary, a portion of the support and earned interest will be returned to CPCFA according to the Incremental Recapture Schedule. The portion to be returned will be based on the original term of the support. However, bridge loans will experience the recapture once the balance of the loan is paid off or the related guarantee goes into effect. Any additional reductions requested by the lender will also be taken at this time.

How to Request Collateral Support for a Loan

Prior to the disbursement of a loan, a lender must submit a [Collateral Support Request](#) and a risk assessment of the borrower. The risk assessment includes: the value of the collateral based on the industry standard of measurement (e.g. appraisal); the lender’s valuation of the collateral including the need for collateral support; borrower’s risk rating; summary of relationship and history of the business; and the lender’s cash flow and financial analysis of the borrower. Once the request has been approved by the CPCFA Executive Director, a Collateral Support Initial Approval will be sent to the lender with instructions for the lender to open a Loss Reserve Account and deposit the Borrower’s Closing Fee prior to the disbursement of the loan. This

commitment can be called upon for up to 90 days after issuance. This collateral support loss reserve account is owned by CPCFA and is reported under CPCFA's tax identification number. A separate account will need to be opened for each loan that is enrolled in the Program.

Within 15 business days of the closing of the loan, the lender shall submit the Collateral Support Initial Approval with the final loan information and closing fees assessed according to Table B, notifying CalCAP CS that the loan has been funded. The CalCAP SSBCI [Lender Certification](#) and [Borrower Certification](#) must be signed and submitted with the final loan information. The lender is required to give the borrower a [Privacy Notice](#). The final loan information must be accompanied by evidence the collateral support loss reserve account has been opened and applicable fees deposited prior to disbursement of the loan. In turn, CalCAP CS's trustee bank will wire the cash collateral support amount into the bank's loss reserve account for each loan. The lender is required to provide a confirmation of receipt of funds.

Collateral Support Loan Loss Reserve Account

The Collateral Support Loan Loss Reserve Accounts are Interest Bearing Demand Deposit Accounts, owned by CPCFA generally held at the lending institution, and specific to each loan. Non-depository financial institutions' loan loss reserve account will be held at CalCAP CS's trustee bank. In addition, the CPCFA Executive Director may require any account be held at the trustee bank.

The collateral support for each loan will be reduced annually according to the Incremental Recapture Schedule (Table C). The lender can also request a reduction in support at their discretion if they determine that the current level of support is no longer necessary.

The interest earned on the collateral support loss reserve account is the property of CPCFA and will be swept with each recapture due.

Default and Charge-Off

Lender must submit a [Collateral Support Default Notification](#) upon loan default, in order to freeze further reductions from the support account and additional fees.

Within 30 calendar days of collateral liquidation, the lender will submit a Collateral Support Claim Application, history of the account payments, a short narrative of the loan collection history, and information about the sale of proceeds or justification for failed attempts to liquidate. State's collateral shall not be used in lieu of pledged collateral. All collateral must be liquidated consistent with the participating financial institution's usual method for loans that do not have the State's support. Lenders may be reimbursed for: the amount of loan principal charge-off; reasonable out-of-pocket expenses incurred in pursuing its collection efforts, including the preservation of collateral, and other related costs; and accrued and unpaid interest. Proper documentation of any claimed expenses shall be presented at the time of the claim. The amount paid on a claim will never exceed the available amount in the Collateral Support Loss Reserve account.

If subsequent to the payment of the claim the lender recovers from the borrower by any source, the lender may fully cover their loss and return any excess to CalCAP CS (not to exceed the total amount paid on the claim by CalCAP CS).

If the default or delinquency affecting the Qualifying Loan is subsequently resolved through a Change in Terms, settlement or other workout which avoids charge-off and collateral liquidation of the loan, the Participating Financial Institution shall promptly withdraw the Default Notification, and the Annual Recapture will resume according to the original schedule and loan anniversary date.

Reporting and Records Retention

Lenders are required to send monthly bank statements to CalCAP CS by the 15th of the following month for all collateral support loss reserve accounts.

If a Collateral Support Loan is in Default, the lender is required to submit a [Quarterly Report](#) which shall include a short report of the status of the loan, including a short narrative of the loan collection history, and the status of the attempt to work out the default including the sale of proceeds or attempts to liquidated collateral.

All loan documents associated with loans enrolled in CalCAP CS are required to be retained three years after the maturity date of the loan, whichever is later.