CalCAP Stakeholder Symposium

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"You got it…a truck brought it."

The CalCAP "Heavy Duty Vehicle Loan Program" began in 2009 as a means to assist truck operators who would not otherwise be able to secure financing for clean equipment purchases.

Since inception, the program has funded over 10,000 pieces of equipment fleets across California with 80% being issued to zip codes in disadvantaged communities.

CARB estimates 200,000-300,000 vehicles are still out of compliance, while thousands more are facing additional turnover requirements in the next 5 years.

“You got it…a truck brought it.”

The HDV Program loan loss reserve is specifically meant to incentivize lenders to underwrite loans that they would normally not. The power is in the “pool”….

AB 1338 (2008) prescribes the basic program criteria for providing financial assistance to owners and operators of on-road heavy-duty diesel fleets…specific legislative direction was given to help fleets that “demonstrate financial hardship”

The loan loss reserve pool that each lender has built up over the years has helped offset the negative credit items that plague many of the “financial hardship” fleets…the very fleets that this program was created for.

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Concepts for sustainability within the CalCAP HDV Program

1. Avoid recapture at maturity and establish a 20% Reserve Threshold

2. No Inclusion of Mandatory Contributions into HDV program

3. Allow Lenders to Continue Enrollment Despite Zero State Contribution

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Concepts for sustainability within the CalCAP HDV Program

1. Avoid Recapture at Maturity and Establish a 20% Reserve Threshold

Although a need for consistency across all programs is necessary, a rational approach that establishes a specified threshold of 20% outstanding portfolio coverage for each lender's loan loss reserve account will serve to sustain the program by allowing new lenders to build a pool while giving established lenders a mechanism that will ensure a specific amount of coverage on outstanding loans prior to recapture.

The pooled reserve threshold IS the credit enhancement.

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Concepts for sustainability within the CalCAP HDV Program

1. Avoid Recapture at Maturity and Establish a 20% Reserve Threshold

Moving to a recapture at maturity without taking into account a reserve threshold will force lenders to move to a loan by loan guarantee, greatly reducing the effectiveness of the program while increasing overall capital outlay for eligible fleets, effectively diminishing buying power.

EX: If a lender uses an existing reserve pool threshold of 17.8% (reserve amount to outstanding balance) and a borrower has a 20% down payment stipulation for a clean truck purchase, the lender can offset that 20% using the threshold. Now the borrower can come in with 3%-5% down instead of 20%.

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Concepts for sustainability within the CalCAP HDV Program

1. Avoid Recapture at Maturity and Establish a 20% Reserve Threshold

A loan by loan guarantee will force lenders to look at new deals using only the available contribution rate that the state provides. Currently, ALL active lenders with over $1.5m in reserve receive a 4% contribution.

If a simple recapture at maturity without a threshold concept is adopted, the borrower in the example above will likely need to come up with 15%-20% down since there is no floor to the pooled threshold and the contribution is only good for the term of the loan.

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Concepts for sustainability within the CalCAP HDV Program

2. No Inclusion of Mandatory Contributions into HDV program

Mandatory contributions (both lender and borrower) will only serve to increase the overall cost of the loan. These costs will be passed on to the borrower through admin fees within the loan.

While in other CalCAP programs, mandatory contributions can help with sustainability, any additional costs associated with enrollments into the HDV program will only serve to limit the ability of borrowers to secure the affordable financing they need.

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Concepts for sustainability within the CalCAP HDV Program

3. Allow lenders to continue enrollment despite zero state contribution

Even without additional state contributions, lenders should be allowed to continue enrollment of eligible loans into the program at the risk of rapid depletion of their reserve pool.

While efforts to shore up CalCAP on-road funding are on-going, since the need is so great, if there is a break in available funds, lenders should not be precluded from enrolling loans despite the lack of state contribution.

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Why to Adopt these Concepts for Sustainability within the CalCAP HDV Program

There is still need for this program.

It's mission is not economic development, it is to help those demonstrating financial hardship to replace dirty, polluting trucks that are harming our environment and our health.

Thousands of small fleets are looking at upgrades over the next few years.

Willingness by elected officials to look at a continued funding stream.

Lenders who have built the program should not be exposed to risk they never would have agreed to if it weren't for the program.

Remember the Mission.

THANK YOU

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