

**CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY  
CALIFORNIA CAPITAL ACCESS PROGRAM (CalCAP)**

**Meeting Date: May 26, 2010**

***Consideration and Approval of Early Readoption of Emergency Regulations, with Changes,  
and Permanent Rulemaking Process***

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**Summary.** Staff requests Board approval of early readoption of the existing CalCAP emergency regulations with additional changes. Upon Board approval, and by recommendation from legal counsel at the Office of Administrative Law (OAL), staff will proceed with combining the previously filed emergency and the newest amendments to file early readoption of the emergency regulations.

In November 2009, the Board granted approval to amend and file emergency regulations to clarify processes and improve the CalCAP Program. The modifications to the Regulations included: updating the definition of “Qualified Loan”; adding Pre-Qualification time limits; elimination of the Notification of Change form; limiting loan enrollment to ten years; conform CalCAP Regulations to its statute concerning the amount of interest the Authority can sweep from each lender’s loss reserve account; and limit reimbursements on claims. These approved changes are shown in Attachment A, denoted with a single underline or ~~single strikeout~~.

After further review and analysis of the existing emergency regulations, staff recommends additional amendments, including: modification to definition of a “Qualified Loan”; inclusion of references to federal bank safety and soundness standards; clarification on combining previously enrolled loans, and further clarification to the limit of reimbursements on claims. These recommended changes are explained in more detail below and in Attachment A, denoted with a double underline or ~~double strikeout~~.

**Background.**

**Business Model.** The CalCAP Program is designed to encourage lending to small businesses that might otherwise be outside the normal underwriting criteria of participating lenders. To accomplish this, CalCAP established a loan loss reserve account in which borrowers and lenders are required to deposit a combined 4% - 7% of the loan proceeds.

**Need for regulation changes.** As the CalCAP program continues to grow and its functions evolve, our regulations, policies, and procedures must also adjust in order to have a more seamless and sustainable program. With those goals in mind, CPCFA staff has identified some areas within the lender enrollment, loans, and claims processes of our regulations that need to be amended. The proposed amendments will: 1) further clarify the types of businesses that are allowed in the Program; 2) allow the finance companies that are enrolled in the Program to comply with standards that are applicable to them; 3) allow multiple CalCAP loans to be combined; 4) clarify limits on claims for reimbursement; and 4) streamline required documentation.

**Stakeholder Involvement.** Staff began the process by identifying difficulties and issues that staff encounters when processing loans and claims. Staff held a Lender Roundtable (Conference Call) Meeting on May 3, 2010 to provide an open forum for staff to present the proposed changes and solicit feedback from the stakeholders. Prior to the Lender Roundtable Meeting, an agenda was developed and distributed to our Lenders. Of CalCAP's 50 Lenders, 25 individuals participated in the Lender Roundtable Meeting. In addition, the Lenders were told they could submit written comments on the proposed regulations and future regulation change ideas CPCFA staff were considering. To date, no comments have been submitted.

**Summary of Changes.** The proposed amendments to the existing emergency regulations were circulated to all CalCAP participating lenders and posted on the CPCFA website for public comment before the commencement of the formal rulemaking process. The previously filed emergency regulations and newly proposed amendments are outlined below.

### **Substantive Regulation Changes from Emergency Regulations**

- 1. Section 8070(s).** *Update the definition of “Qualified Loan” to include additional items that are not specified in Health and Safety Code Section 44559.1(j).* The Board approved the addition of aircraft, spas, bars, and adult entertainment as prohibited uses at the November 2009 Board Meeting; however, legal counsel from OAL suggested clarification of the terms “spas” and “adult entertainment”. OAL allowed modifications without Board approval during the emergency regulations process, but requires Board approval in the permanent rulemaking process. The clarifications are identified below.

“Qualified Loan” does not include any of the following:

(4) A loan, the proceeds of which will be used

(A) to provide any of the following facilities: any private or commercial golf course, country club, massage parlor, spas that provide massage services, tennis club, skating facility (including roller skating, skateboard, and ice skating), racquet sports facility (including any handball or racquetball court), hot tub facility, suntan facility, racetrack, airplane, aircraft, skybox (or other private luxury box), health club facility, facility primarily used for gambling or to facilitate gambling, or store whose principal business is the sale of alcoholic beverages for consumption off premises, bars, a store or other facility whose principal business is the sale of firearms, a store or other facility whose principal business is the manufacture or sale of tobacco or tobacco products, any religious facility or organization, escort service, nudist camp, adult entertainment (including strip clubs, adult book stores, and businesses whose principal business is the sale of pornography), gun club, shooting range or gallery.

- 2. Section 8072 (c)(23).** *Add the words “any applicable” to the reference about federal safety and soundness standards as set forth in applicable federal banking regulations.* This change allows finance companies not subject to federal regulations to comply with the standards applicable to them.
- 3. Section 8072 (e)(8).** *Change the word “all” to “any” to the reference the federal safety and soundness standards as set forth in applicable federal banking regulations.* Same as above.

4. **Section 8072 (i).** *Require Lenders to submit a loan enrollment application when combining previously enrolled loans (when total loan amounts do not increase).* This change allows CalCAP lenders to combine previously enrolled loans without jeopardizing the enrollment status of those loans. The current regulations are silent on lenders' ability to restructure and modify CalCAP loans, which has presented problems when a loan defaults and the lender submits a claim for reimbursement on restructured loans.
5. **Section 8074 (d).** *Clarifies that the claim for reimbursement shall not exceed the principal and interest, except when out-of-pocket expenses are claimed.* The Board approved its restriction at the November 18, 2009 meeting. However, the wording of this restriction confused some lenders about what they could claim. This change clarifies the restriction.

**Regulatory Process.** The emergency regulations have been in effect since December 17, 2009 and are set to expire on June 15, 2010. At the direction of Office of Administrative Law legal counsel, staff is in the process of applying for early readoption of those emergency regulations. This 90-day extension of will allow more time to complete the permanent rulemaking process. After Authority approval to amend the existing regulations, permanent rulemaking packages will be filed with the OAL.

To begin the permanent rulemaking process, staff will prepare a notice of a Proposed Rulemaking to be published in the California Regulatory Notice Register, mail the notice to CalCAP participating lenders and interested persons, and post the notice, text, and initial statement of reasons on the CPCFA website. The notice starts the OAL 45-day public comment period. After that time, staff will review and respond to any comments and present the final form of the regulations to the Authority for approval. If there are substantial modifications, the revised regulations must be published in the California Regulatory Notice Register again for a 15-day public comment period before Authority approval. After Authority approval, a permanent rulemaking file is submitted to OAL, and OAL has 30 working days to review the regulations for compliance with the Administrative Procedure Act and the Authority's statute. Once OAL approves the regulations, they are filed with the Secretary of State and become effective as permanent regulations 30 days later.

**Timeline.** Outline below is the estimated schedule.

**Emergency Regulations Readoption with Changes**

April 28, 2010	Regulation Change Alert Posted.
May 3, 2010	Lender Roundtable Conference Call.
May 19, 2010	5-day Notice of Emergency Rulemaking.
May 26, 2010	The Board approves the readoption of emergency regulations.
May 28, 2010	Readoption of emergency regulations filed with OAL.
June 4, 2010	Public comment period ends.
June 7, 2010	OAL review period ends. Emergency regulations are filed with the Secretary of State and are in effect.
September 14, 2010	90-day extension of Emergency regulations expires.

Permanent Regulations

June 7, 2010	The <i>Rulemaking File</i> and Notice of Publication are filed with the Office of Administrative Law (OAL). The Notice of Proposed Regulatory Action is issued.
June 23, 2010	OAL publishes Notice of Publication and 45-day public comment period begins.
August 9, 2010	Public Hearing
August 13, 2010*	Public comment period regarding proposed regulations ends.
August 16, 2010	Deliver permanent regulation package to OAL for 30-day review.
September 15, 2010	OAL issues Approval of Certificate of Compliance and files regulations with the Secretary of State.
October 16, 2010	Permanent regulations become effective.

\*If public comments are received that warrant substantial modifications to the proposed regulations, then the process will be lengthened to accommodate a 15-day comment period as follows:

August 16, 2010	Proposed regulation amendments are modified and Notice Proposed Changes is issued to initiate a 15-day comment period.
August 31, 2010	15-day comment period ends.
September 7, 2010	Deliver permanent regulation package to OAL for 30-day review.
October 7, 2010	OAL issues Approval of Certificate of Compliance and files regulations with the Secretary of State.
November 6, 2010	Permanent regulations become effective.

**Recommendation.** Staff recommends adoption of a resolution approving the early readoption of emergency regulations, with changes, for the CalCAP Program, and authorizing staff to undertake rulemaking proceedings and other actions related to CalCAP regulation revisions for the readoption of the emergency regulations and permanent regulations.

**RESOLUTION OF THE CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY APPROVING ~~EARLEY~~ EARLY READOPTION OF EMERGENCY REGULATIONS, WITH CHANGES, AND AUTHORIZING PERMANENT RULEMAKING PROCEEDINGS AND OTHER ACTIONS RELATED THERETO, INCLUDING THE PUBLIC NOTICE AND COMMENT PROCEDURES**

**WHEREAS**, the California Pollution Control Financing Authority (the "Authority") is authorized by California Health and Safety Code Sections 44520(a) and 44559.5(f) to adopt regulations to implement and make specific the statutory provisions governing the Authority; and

**WHEREAS**, the Authority is authorized by California Health and Safety Code Section 44520(b) to adopt regulations relating to small business as emergency regulations; and

**WHEREAS**, the Authority has determined that amendments to the Authority's regulations relating to its Capital Access Program for Small Businesses (the "Program") set forth in Article 7 of Division 11 of Title 4 of the California Code of Regulations, are necessary to be adopted at this time to administer the Program.

**NOW, THEREFORE, BE IT RESOLVED** by the California Pollution Control Financing Authority as follows:

**Section 1.** The proposed form of regulations presented at the May 26, 2010, meeting are hereby approved in substantially the form submitted. The Chair, Executive Director, or Deputy Executive Director is hereby authorized, for and on behalf of the Authority, to proceed with the public notice and comment procedures and file such regulations, with the supporting documentation required by law, for the purposes of readopting these emergency regulations.

**Section 2.** The Chair, Executive Director, or Deputy Executive Director of the Authority are hereby authorized and directed to take such actions, including making or causing to be made such changes to the regulations as may be required for approval thereof by the Office of Administrative Law, and to execute and deliver any and all documents that they may deem necessary or advisable in order to effectuate the purposes of this resolution.

**Section 3.** This resolution shall take effect immediately upon its approval.

**PROPOSED CALCAP CHANGES OF REGULATIONS**

Title 4. Business Regulations

Division 11. California Pollution Control Financing Authority

Article 7. Capital Access Program For Small Businesses

**8070. Definitions.** In addition to the definitions in Section 8020, the following terms shall have the following definitions, unless the context requires otherwise:

(a) "Borrower" means a Qualified Business which obtains a Qualified Loan from a Participating Financial Institution.

(b) "Early Stage Loan" means each of the first \$500,000 of Qualified Loan made by a Participating Financial Institution.

(c) "Executive Director" means the Executive Director of the California Pollution Control Financing Authority, or his or her designee from time to time.

(d) "Fees" or "Fee" means a non-refundable fees or fee as set forth in Health and Safety Code Section 44559.4(c).

(e) "Financial Institution" means an institution as set forth in Health and Safety Code Section 44559.1(d)

(f) "Independent Contributor" means any individual, company, corporation, institution, foundation, utility, government agency or other entity, including any consortium of these persons or entities, whether public or private (but excluding any Borrower), that, pursuant to the provisions of this Article, pays to a Loss Reserve Account the Matching Contribution and/or Fees payable by the Borrower and/or the Financial Institution.

(g) "Individual" means a natural person, together, if applicable, with any of his or her spouse, parents, siblings or children or the parents or spouse of any of them.

(h) "Law" means Article 8 (commencing with Section 44559) of Chapter 1 of Division 27 of the California Health and Safety Code, as amended from time to time.

(i) "Loss Reserve Account" means an account held by a Program Trustee or by any Participating Financial Institution that is established and maintained by the Authority for the benefit of a Participating Financial Institution for the purposes set forth in Section 8073.

(j) "Matching Contribution" means a contribution to a Loss Reserve Account as set forth in Health and Safety Code Section 44559.4(d)(1).

(k) "Money Market Fund" means an open-ended management investment company regulated under the Investment Company Act of 1940, as amended, which values its securities pursuant to Section 270.2a-7 of Title 17 of the Code of Federal Regulations.

(l) "Participating Financial Institution" means a Financial Institution that has been approved by the Authority to enroll Qualified Loans in the Program and has agreed to all terms and conditions set

forth in the Law and this Article and as may be required by any applicable federal law providing matching funding.

(m) "Passive Real Estate Ownership" means ownership of real estate for the purpose of deriving income from speculation, trade or rental, but does not include any of the following:

- (1) The ownership of that portion of real estate being used or intended to be used for the operation of the business of the owner of the real estate; or
- (2) The ownership of real estate for the purpose of construction or renovation, until the completion of the construction or renovation phase. For purposes of clause (1) above, the Borrower must be using or planning to use upon acquisition or construction of a building, at least 51 percent of the space in an existing building or at least 67 percent of the space in a newly constructed building. The requirements of clause (1) above will be deemed to be satisfied when a Participating Financial Institution makes a Qualified Loan to an Individual, or to a partnership or trust wholly owned or controlled by one or more Individuals, for the purpose of financing property that will be leased to a Qualified Business that is wholly owned by those same Individuals, and in such case the Qualified Loan will be deemed to be made also to such Qualified Business.

(n) "Primary business location in California" means that a business will be deemed to be located in California if either:

- (1) a majority of the employees of the business are located in California; or
- (2) the Executive Director determines that the Primary business location is in California by finding that the average of the "Payroll Factor" as defined in Revenue and Taxation Code Section 25132, the "Income Factor" as defined in Revenue and Taxation Code Section 25128, and the "Sales Factor" as defined in Revenue and Taxation Code Section 25134 is greater than 50 percent.

(o) "Primary economic effect in California" means, as applied to a business activity, that either of the following conditions exists:

- (1) At least 51 percent of the total revenues of the business activity are generated in California; or
- (2) At least 51 percent of the total jobs of the business activity are created or retained in California.

(p) "Program" means the Capital Access Loan Program for Small Businesses established pursuant to the Law.

(q) "Program Trustee" means a bank or trust company, or the State Treasurer, chosen by the Authority from time to time to hold or administer some or all of the Loss Reserve Accounts.

(r) "Qualified Business" means a Small Business Concern that meets both of the following criteria:

- (1) It is a corporation, partnership, cooperative, or other entity, whether that entity is a nonprofit entity or an entity established for profit, that is authorized to conduct business in California.
- (2) It has its Primary business location in California.

(s) "Qualified Loan" means a loan or a portion of a loan made by a Participating Financial Institution to a Qualified Business for any business activity that has its Primary economic effect in California. A Qualified Loan may be made in the form of a line of credit, in which case the Participating Financial Institution shall specify the amount of the line of credit to be covered under the Program, which may be equal to the maximum commitment under the line of credit or an amount that is less than the maximum commitment. "Qualified Loan" does not include any of the following:

- (1) A loan for the construction or purchase of residential housing.
- (2) A loan to finance Passive Real Estate Ownership.

(3) A loan for the refinancing of debt already held by the Participating Financial Institution other than a prior Qualified Loan enrolled under the Program, except to the extent of any increase in the outstanding balance.

(4) A loan, the proceeds of which will be used

(A) to provide any of the following facilities: any private or commercial golf course, country club, massage parlor, spas that provide massage services, tennis club, skating facility (including roller skating, skateboard, and ice skating), racquet sports facility (including any handball or racquetball court), hot tub facility, suntan facility, racetrack, airplane, aircraft, skybox (or other private luxury box), health club facility, facility primarily used for gambling or to facilitate gambling, or store whose principal business is the sale of alcoholic beverages for consumption off premises, bars, a store or other facility whose principal business is the sale of firearms, a store or other facility whose principal business is the manufacture or sale of tobacco or tobacco products, any religious facility or organization, escort service, nudist camp, adult entertainment (including strip clubs, adult book stores, and businesses whose principal business is the sale of pornography), gun club, shooting range or gallery; or

(B) in any manner that could cause the interest on any bonds previously issued by the Authority to become subject to federal income tax, as specified in writing to all Participating Financial Institutions by the Executive Director.

(5) any loan or portion thereof to the extent the same loan or portion thereof has been, is being, or will be enrolled in any other government program substantially similar to the Program.

(6) any loan or portion thereof to the extent that enrollment of the loan will cause the Borrower (including all related entities among which a common enterprise exists) to have a total enrolled principal amount from all Participating Financial Institutions in excess of \$1,500,000.

(t) "Severely Affected Community" means any area classified as an enterprise zone pursuant to the Enterprise Zone Act, Chapter 12.8 (commencing at Section 7070) of Division 7 of Title 1 of the California Government Code; any area, as designated by the Executive Director, contiguous to the boundaries of a military base designated for closure pursuant to Public Law 101-150, as amended; and any other comparable economically distressed geographic area so designated by the Executive Director from time to time.

(u) "Small Business Assistance Fund" means a fund of that name created by the Authority.

(v) "Small Business Concern" means an independently owned and operated business that is not dominant in its field of operation, the principal office of which is located in California, the officers of which are domiciled in California, and that, together with affiliates, has 100 or fewer employees, and average annual gross receipts of ten million dollars (\$10,000,000) or less over the previous three years.

(w) "Standards" means the criteria, limited to geographical area and/or type of business, to be used by an Independent Contributor in selecting businesses to assist through the Program.

Note: Authority cited: Sections 44520 and 44559.5(f), Division 27, Health and Safety Code.

Reference: Sections 44559.1, 44559.2, 44559.3, 44559.4, 44559.5, 44559.7 and 44559.9 Division 27, Health and Safety Code.

### **§ 8071. Application by Financial Institution**

(a) A Financial Institution seeking to participate in the Program will complete a registration application provided by the Authority.

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The application shall include the following information:

- (1) name of applicant Financial Institution.
- (2) name, address and telephone number of contact person.
- (3) combined capital and surplus as of the end of the Financial Institution's most recent fiscal year.
- (4) number of lending branches.
- (5) certification that the applicant Financial Institution is not subject to a cease and desist order or other regulatory sanction with the appropriate federal or state regulatory body, which would impair its ability to participate in the Program, and the name of that body.
- (6) a full description of the board of directors, including number, race, ethnicity and gender of its members.
- (7) the Financial Institution's rating from a nationally recognized credit rating agency which assesses the financial soundness and stability of financial institutions.
- (8) the Financial Institution's agreement to follow the Program's procedures as set forth in the Law and this Article.
- (9) the Financial Institution's agreement to permit an audit of any of its records relating to enrolled Qualified Loans, during normal business hours on its premises, by the Authority or its agents, and to supply such other information concerning enrolled Qualified Loans as shall be requested by the Executive Director.
- (10) acknowledgment by the Financial Institution that the Authority and the State will have no liability to the Participating Financial Institution under the Program except from funds deposited in the Loss Reserve Account for the Participating Financial Institution.

(b) Upon receipt of a completed application, the Executive Director will within 10 days review and determine whether additional information is required, or whether the application is sufficient to permit the applicant to be a Participating Financial Institution. The Executive Director's decision whether an application is sufficient shall be final.

(c) A Participating Financial Institution shall be authorized to request the Authority to establish two or more Loss Reserve Accounts for such institution, so that the institution shall be able to allocate any Qualified Loan enrolled under Section 8072 to whichever Loss Reserve Account it designates. In such case, the definition of Early Stage Loan and Section 8074(f) shall be applied in the aggregate to all the Loss Reserve Accounts for each Participating Financial Institution.

Note: Authority cited: Sections 44520 and 44559.5(f), Division 27, Health and Safety Code.  
Reference: Section 44559.2, Division 27, Health and Safety Code.

**§ 8072. Loan Enrollment.**

(a) The terms and conditions of Qualified Loans, including interest rates, fees and other conditions, shall be determined solely by agreement of the Participating Financial Institution and the Borrower.

(b) A Participating Financial Institution shall be authorized to enroll under the Program all or a part of any Qualified Loan:

(1) by notifying the Authority in writing, within 10 business days after the Qualified Loan is made, that it is enrolling a Qualified Loan. For purposes of this section, the date on which the Participating Financial Institution makes a Qualified Loan is the date on which the Participating Financial Institution first disburses proceeds of the Qualified Loan to the Borrower; and

(2) by transmitting to the Authority the Fees collected from the Participating Financial Institution and the Borrower, or from an Independent Contributor on behalf of the Borrower and/or the Authority, in connection with the Qualified Loan, and by providing written evidence that the Fees have been deposited in a Loss Reserve Account held by either the Participating Financial Institution or the Program Trustee.

(c) The notification to the Authority shall include at least the following information:

(1) Name, D/B/A (if any), address, telephone and fax number of the Borrower.

(2) Brief description of the Borrower's business and either the SIC Code(s) or the NAICS Code(s) applicable to such business.

(3) Brief description of the Borrower's regular activities and the amount of its annual revenues.

(4) Brief summary of the intended use of the proceeds of the Qualified Loan.

(5) Amount of the Qualified Loan being enrolled (and indication if less than the full amount of the Qualified Loan is being enrolled).

(6) Type of the Qualified Loan (e.g., line of credit, term loan, equipment loan).

(7) Date of the Qualified Loan.

(8) Interest rate applicable to the Qualified Loan.

(9) Term of the Qualified Loan.

(10) Geographic location of the Qualified Business and the location of the facilities being financed if different.

(11) Whether the Qualified Business or the location of the facilities being financed is in a Severely Affected Community.

(12) Whether the loan is secured.

(13) Whether the loan is a refinancing, and if so, whether the prior loan was enrolled under the Program, and whether the amount of the loan was increased as part of the refinancing

(14) Agreed amount of the Fees payable by each of the Borrower and the Participating Financial Institution.

(15) Whether any portion of the Fees payable by the Borrower or the Matching Contribution was or is to be paid by an Independent Contributor; the identity of such Independent Contributor; and a certification that the Independent Contributor has approved the use of its funds to pay such Fees or Matching Contribution in connection with the Qualified Loan.

(16) Number of persons currently employed by the Borrower, and number of jobs expected to be created, retained or affected by the Qualified Loan.

(17) Certification that the loan is a Qualified Loan, and that the business receiving the Qualified Loan is a Qualified Business.

(18) Certification that the Qualified Loan is for a business activity that has its Primary economic effect in California.

(19) Certification that, upon request of the Executive Director, the Participating Financial Institution will provide information from the financial records of the Borrower, and that the Participating Financial Institution has obtained the consent of the Borrower to such disclosure.

(20) Certification that the Participating Financial Institution has obtained a written representation from the Borrower that it has no legal, beneficial or equitable interest in the Fees or the Matching Contribution.

(21) Certification that the principal amount of the loan (without regard to the amount to be enrolled) does not exceed \$1,500,000.

(22) Certification that the Participating Financial Institution has notified the Borrower if the Participating Financial Institution's share of the Fees for the Qualified Loan have been paid from loan proceeds.

(23) Acknowledgment that the lending activities of the Participating Financial Institution are subject to safety and soundness standards as set forth in applicable federal banking regulations. The Participating Financial Institution shall be authorized to base the information requested by subsections (4), (16), (17), (18) and (21) above upon representations made to it by the Borrower; provided that no such Borrower representation may be relied upon if it is known to be false by the lending officer(s) at the Participating Financial Institution who are directly involved in the negotiation of the Qualified Loan.

(24) Certification that the Participating Financial Institution has obtained a written representation from the Borrower that it has secured or made application for all applicable licenses or permits needed to conduct business.

(25) Certification from the Participating Financial Institution that it has not, and will not, enroll the same loan or portion thereof in any other government program substantially similar to the Program.

(26) Certification that the Borrower does not meet the Participating Financial Institution's normal underwriting criteria for making loans of the type sought to be enrolled and that without enrollment, the Participating Financial Institution would not make a loan.

(d) If a Borrower seeking a loan from a Participating Financial Institution has less than a majority of its employees in California, the Participating Financial Institution shall be authorized to submit information to, and seek a determination from, the Executive Director that such Borrower has its Primary business location in California. Such determination shall be made by the Executive Director within 10 days of receipt of a written request from a Participating Financial Institution containing information about the business activities of the proposed Borrower.

(e) If a Borrower seeking a Qualified Loan from a Participating Financial Institution is an employee, member, director, officer, principle shareholder, or affiliate of the Participating Financial Institution, the terms and the conditions of the Qualified Loan and the internal procedures used to approve the Qualified Loan must comply with the following requirements:

(1) If the Participating Financial Institution is a federal-chartered bank, the Qualified Loan must be made in accordance with all applicable federal banking laws that regulate conflicts of interests and insider transactions and Sections 371c, 371c-1, 375a, and 375b of the Title 12 of the United States Code, and Sections 215.4 of Title 12 of the Code of Federal Regulations.

(2) If the Participating Financial Institution is a state-chartered bank, the Qualified Loan must be made in accordance with all applicable state banking laws that regulate conflicts of interests and insider transactions and Section 3370 et seq. of the Financial Code, and Sections 10.19300 to 10.19302 of Title 10 of the California Code of Regulations.

(3) If the Participating Financial Institution is a federal-chartered savings association, the Qualified Loan must be made in accordance with all applicable federal banking laws that regulate conflicts of interests and insider transactions and Section 1468 of Title 12 of the United States Code.

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(4) If the Participating Financial Institution is a state-chartered savings association, the Qualified Loan must be made in accordance with all applicable state banking laws that regulate conflicts of interests and insider transactions and Sections 6503 and 6529 of the Financial Code.

(5) If the Participating Financial Institution is a federal-chartered credit union, the Qualified Loan must be made in accordance with all applicable federal banking laws that regulate conflicts of interests and insider transactions and Sections 1757 and 1761c of Title 12 of the United States Code and Section 701.21(d) of Title 12 of the Code of Federal Regulations.

(6) If the Participating Financial Institution is a state-chartered credit union, the Qualified Loan must be made in accordance with all applicable state banking laws that regulate conflicts of interests and insider transactions and Section 15050 of the Financial Code.

(7) If the Participating Financial Institution is a not-for-profit certified community development financial institution (CDFI), the Qualified Loan must be made in accordance with ~~all~~ any applicable federal banking laws that regulate conflicts of interests and insider transactions and Sections 1805.807 of Title 12 of the Code of Federal Regulations.

(8) If the Participating Financial Institution is a lending institution as described in Section 44559.1(d)(2) of the Health and Safety Code, the Qualified Loan must be made in accordance with all any applicable federal laws that regulate conflicts of interests and insider transactions and Section 120.140 of Title 13 of the Code of Federal Regulations.

(f)The Participating Financial Institution shall pre-qualify with the Authority any qualified loan with a principal amount of \$500,000 or more. Pre-qualifications shall be valid for six (6) months.

(g)The Authority shall, upon receipt of documentation and Fees from the Participating Financial Institution, enroll the Qualified Loan if the Executive Director determines that the Qualified Loan meets the requirements of the Law and this Article. The Executive Director shall notify the Participating Financial Institution of enrollment within 10 business days after receipt by the Authority of all documentation and Fees required by the Law and/or this Article. The Executive Director's determination whether a loan shall be enrolled in the Program shall be final. The Executive Director shall be authorized to review an application for enrollment submitted by a Participating Financial Institution in advance of the making of the loan, and notify the institution whether such loan meets the requirements of the Law and this Article.

(h)Upon enrollment of a Qualified Loan, the Matching Contribution shall be transferred for deposit in the Loss Reserve Account (1) by the Authority or (2) by an Independent Contributor, and the Program Trustee shall notify the Participating Financial Institution of the transfer and of the source of funds from which the transfer was made.

~~(i)The Participating Financial Institution shall notify the Authority within 60 days after any extension or renewal of any enrolled loan which does not increase the loan amount.~~ If the amount is increased, or previously enrolled CalCAP loans are combined, a new loan enrollment form shall be submitted ~~within such time~~, and Fees (if applicable) shall be transmitted or deposited pursuant to Section 8072(b)(2) based on the increased amount.

(j) The Participating Financial Institution shall notify the Authority of the work-out status on Qualified Loans for which extension/renewal or charge off status is not yet clear. The "Notification of Work-Out Status" form provided by the Authority shall be used to notify the Authority. The Participating Financial Institution shall have up to 240 days from such initial notification to inform the Authority of re-enrollment or charge off.

(k) Without regard to the term of the loan, the term of enrollment in the Program shall not exceed ten years.

Note: Authority cited: Sections 44520 and 44559.5(f), Division 27, Health and Safety Code.  
Reference: Sections 44559.2 and 44559.4, Division 27, Health and Safety Code.

**8073. Loss Reserve Accounts.**

(a) Upon the Executive Director's acceptance of an application under Section 8071, the Authority shall establish a Loss Reserve Account for that Participating Financial Institution for the following purposes:

- (1) to receive all Fees deposited by the Participating Financial Institution, Borrowers and/or Independent Contributors;
- (2) to receive Matching Contributions deposited by the Authority and/or Independent Contributors; and
- (3) to pay claims in accordance with Section 8074.

(b) The Loss Reserve Account shall, in the Authority's sole determination, be held by the Participating Financial Institution or by a Program Trustee.

(c) Any Loss Reserve Account held in a Participating Financial Institution shall be an interest-bearing demand account or deposit account at a banking institution, or a Money Market Fund approved by the Executive Director, or a combination thereof, and earning a rate of interest that would be expected of accounts of similar type and size. The Loss Reserve Account shall be insured by the Federal Deposit Insurance Corporation, the National Credit Union Share Insurance Fund, or the Securities Investor Protection Corporation, as appropriate, to the extent permitted by law. The Authority shall not deposit any Loss Reserve Account with a Participating Financial Institution if:

- (1) there are any charges by the Participating Financial Institution for the establishment or maintenance of the Loss Reserve Account at such Financial Institution; or
- (2) at the time the Loss Reserve Account is established with the Participating Financial Institution, it has a rating below "75" from IDC Financial Publishing Inc.'s Bank Financial Quarterly, S&L-Savings Bank Financial Quarterly, or Credit Union Financial Profiles, or it has a rating below "11" from Highline Inc.'s Bank Quarterly or S&L Quarterly or successor publication approved by the Executive Director.

(d) All moneys in a Loss Reserve Account are property of the Authority (subject to the Participating Financial Institution's right to receive a portion of the remaining balance in the Loss Reserve Account upon its withdrawal from the Program pursuant to Section 8076 and subject to subsection (e) below). Interest or income earned on moneys credited to the Loss Reserve Account shall be deemed to be part of the Loss Reserve Account. The Executive Director shall be authorized to withdraw from the loss reserve all interest and income that has been credited to the loss reserve account as set forth in Health and Safety Code Section 44559.3 (d).~~moneys from the Loss Reserve Account to offset administrative costs associated with the Program, provided that the Executive Director shall not be authorized to withdraw more than 50 percent of all interest or income credited to the Loss Reserve Account.~~ The Executive Director shall be authorized to return to a Participating Financial Institution any fees improperly deposited in a Loss Reserve Account.

(e) Notwithstanding any other provision of this article, the Executive Director shall be authorized, with the approval of the applicable Participating Financial Institution, to assign, transfer, pledge or

create security interests in all or a portion of any Loss Reserve Account to any other entity or entities (including a trustee of a securitization trust or trusts) in connection with the securitization of all or a portion of the Participating Financial Institution's loans enrolled in the Program.

Note: Authority cited: Sections 44520 and 44559.5(f), Division 27, Health and Safety Code.  
Reference: Sections 44559.3 and 44559.8, Division 27, Health and Safety Code.

**8074. Claim for Reimbursement.**

(a) A Participating Financial Institution shall notify the Authority within 30 days after it has charged off all or part of a Qualified Loan as a result of a default by the Borrower.

(b) A Participating Financial Institution shall be authorized to make a claim for reimbursement of a loss from the enrolled portion of a Qualified Loan prior to the liquidation of collateral, or to realization on personal or other financial guarantees or from other sources. A Participating Financial Institution may also defer, for a period not to exceed 180 days from the date of the charge off, at its sole discretion, making a claim for reimbursement, but still must inform the Authority of charge off status within 30 days.

(c) The Authority shall pay claims within 30 days of receipt of a completed claim request; provided, however, that the Executive Director shall be authorized to reject a claim if it is determined that the representations and warranties provided by the Participating Financial Institution pursuant to Section 8072 at the time of enrolling the Qualified Loan were false. The Authority shall be authorized, upon providing written notice to the Participating Financial Institution, to defer payment of claims up to an additional 30 days if the Authority requires more information in order to determine if the claim shall be paid.

(d) Claim reimbursement of principal and interest shall not exceed the enrolled amount of the qualified loan or loans that form the basis for the claim, except when reasonable out-of-pocket expenses are claimed.

(e) To make a claim, the Participating Financial Institution shall submit a claim form to the Authority which shall include the following information:

- (1) Name and number of the Participating Financial Institution.
- (2) Name, address and telephone number of contact person.
- (3) Name of the business receiving the defaulted Qualified Loan.
- (4) Amount and date of the Qualified Loan and the Authority's loan number.
- (5) Date of default.
- (6) Amount of default.
- (7) Amount of claim and breakdown of components of the claim between principal, interest, and reasonable out-of-pocket expenses of collection or preservation of collateral, accompanied by documentation of such expenses.
- (8) Certification that notice was filed with the Authority as required by Section 8074(a) above within 30 days of the date the Participating Financial Institution charged the Qualified Loan off on its books, and certification that such charge off was made in a manner consistent with the Participating Financial Institution's usual methods for taking action on loans which are not enrolled as Qualified Loans under the Program.
- (9) Statement whether the loan is secured, and whether the Participating Financial Institution has commenced enforcement proceedings.

(10) If two or more claims are filed simultaneously by one Participating Financial Institution, a statement of the priority of payment of the claim compared to the other claims in the event the Loss Reserve Account is not sufficient to pay all claims.

(11) Statement whether the Qualified Loan qualifies under Section 8074(f).

(12) Certification that the Participating Financial Institution has given notice to the Authority of the initial enrollment of the loan and certification that either (A) the Participating Financial Institution has given notice to the Authority of any renewals or extensions of the loan, or (B) the loan was continuously renewed or extended within the Participating Financial Institution since the date of its initial enrollment.

(fe) Except as provided in Section 8074(f) below, if a Qualified Loan suffers a loss and at the time of the Participating Financial Institution's claim there are insufficient funds in the Loss Reserve Account to cover the total amount of the claim, the Participating Financial Institution shall be able to withdraw all of the amount in the Loss Reserve Account at the time of the claim, to cover the loss to the fullest extent possible, but it shall thereafter not be eligible to obtain any further reimbursement relating to that claim.

(gf) If a Qualified Loan (or any part of it) is among the first one million dollars of Qualified Loans made by a Participating Financial Institution and it suffers a loss, and at the time of the claim there is not enough money in the Loss Reserve Account to fully cover the loss, the Participating Financial Institution shall be able to withdraw all of the amount in the Loss Reserve Account at the time of the claim, to cover the loss to the fullest extent possible. If the Participating Financial Institution then continues making Qualified Loans under the Program and the Loss Reserve Account is replenished, the Participating Financial Institution shall be authorized to withdraw funds from the Loss Reserve Account at a subsequent time in order to fully cover the earlier claim, provided that the amount subsequently withdrawn to cover the earlier claim cannot exceed 75 percent of the amount in the Loss Reserve Account immediately prior to such subsequent withdrawal.

(gh) If subsequent to the payment of a claim by the Authority, the Participating Financial Institution recovers from the Borrower, from liquidation of collateral or from any other source, amounts for which the Participating Financial Institution was reimbursed by the Authority, the Participating Financial Institution shall promptly pay to the Authority for deposit in the Loss Reserve Account, the amount received, net of reasonable and customary costs of collection, that in aggregate exceeds the amount needed to fully cover the Participating Financial Institution's loss on the Qualified Loan (including the portion of a Qualified Loan which is not enrolled in the Program). Recoveries which exceed reimbursements to the Loss Reserve Account may be retained by the Participating Financial Institution.

Note: Authority cited: Sections 44520 and 44559.5(f), Division 27, Health and Safety Code.  
Reference: Section 44559.5, Division 27, Health and Safety Code.