Summary. Staff requests approval of the proposed Program Updates, for the California Capital Access Program Collateral Support Program (CalCAP CS, or Program), as presented in the revised Program Summary, to refine the availability of contributions for borrowers located in a Severely Affected Community (SAC) and make other administrative clarifications.

Background. On February 17, 2011, CPCFA was awarded approximately $84 million in State Small Business Credit Initiative (SSBCI) funds by the U.S. Department of the Treasury (Treasury) to fund programs that help small businesses obtain capital. The SSBCI funds awarded to California totaled approximately $168 million and are split evenly between CPCFA and California Infrastructure and Economic Development Bank (I-Bank). The funds have been approved to facilitate CPCFA’s Capital Access Program (CalCAP) and I-Bank’s Small Business Loan Guarantee Program. CPCFA received an initial disbursement of $27.8 million, which is the first of three “tranches” of its share of the award. CPCFA’s second tranche of SSBCI funds totaling $27.8 million was received in December 2013. CPCFA anticipates receiving the third and final tranche of approximately $27 million in Spring 2015.

At the time of the initial award, only CPCFA’s CalCAP was utilizing these funds as an approved participating State program. In March 2012, CPCFA requested Treasury’s approval to include a Collateral Support Program (CalCAP CS or the Program) to utilize a portion of the allotted SSBCI funds. In May 2012, staff obtained CPCFA board approval to begin administering the Collateral Support Program upon Treasury’s approval. Subsequent to the May 2012 board meeting, CalCAP staff actively solicited stakeholder input on the CalCAP CS Program Summary. As a result of Treasury and stakeholder input, CalCAP staff requested and obtained board approval in July 2014, to again refine the parameters of the Program Summary and modify the terms of support to slow the expenditure of funds and ensure the sustainability of CalCAP CS, while maintaining the Program’s attraction to lenders and borrowers.

Now that the program has been actively running for over two years, staff’s experience in reviewing and analyzing over 150 separate requests has demonstrated that there are a few circumstances (previously unanticipated) where the terms of support – if applied literally – have unintended consequences. Historically, the contribution for borrowers located in a Severely

PREPARED BY: Megan Hodapp
Affected Community (SAC) as defined under the CalCAP regulation has always equaled just a portion of the main premium or support contributed by CPCFA to a loan loss reserve. However, the way in which the most recent Program Summary was phrased sometimes resulted in the SAC contribution inadvertently exceeding the main collateral support for certain loans enrolled in CalCAP CS. Therefore, the proposed revision to the Program Summary (attached hereto) corrects that anomaly.

In addition, staff’s experience in reviewing applications for the Cal/CAP CS has demonstrated some lenders’ desire to utilize the Program for lines of credit. The proposed revision clarifies the application of the terms of support for such transactions.

Finally, the proposed revision to the Program Summary includes edits to the grammar and formatting, to improve the reader’s comprehension of the terms of support of the CalCAP CS Program.

**Program Overview.** The CalCAP CS Program is designed to encourage participating financial institutions to make loans to eligible small businesses where the borrower lacks collateral but is otherwise credit worthy. The collateral support is pledged by CPCFA, in the form of a cash deposit, to cover the collateral shortfall of a loan in order to facilitate financing that might otherwise be unavailable. The exact amount of collateral support contributed for each loan is requested by the lender up to the maximum terms set by the Program. The final determination of the support amount is at the discretion of the CPCFA Executive Director based upon a review of the lender’s risk assessment of the borrower. This cash collateral remains the property of CPCFA and is held in a separate interest-bearing demand deposit account either at the lending institution or CPCFA’s trustee bank, based upon the Executive Director’s determination of the institution’s financial status. The interest accrued in each collateral support account is the property of CPCFA and swept on a periodic basis. For term loans supported longer than one year, a portion of deposit is incrementally recaptured on an annual schedule. The recaptured support funds are recycled back into CPCFA’s CalCAP CS Program account to be used for support on future loans. The lender may request a reduction in support at its discretion if it determines that the current level of support is no longer necessary. In the event of a default of a loan enrolled in the Program, the lender must first liquidate available collateral before making a claim on the collateral support deposit.

**Details of Proposed Program Updates.** Staff proposes the following substantive modifications to CalCAP CS:

- To maintain a consistent ratio between the main support contribution and the SAC contribution for a borrower located in an SAC, the maximum amount of the additional SAC support would now be expressed as 20% (or 1/5) of the total support amount.
- Table B describing the fees clarifies that the usual fee structure applies to the initial term of the line of credit, and that the support for a line of credit may be renewed if:
  - the renewal is requested prior to the maturity of the line,
  - the request is accompanied by a new or updated risk assessment, and
  - the request is accompanied by a 1% annual renewal fee.
No further changes are proposed for the implementation of the Program. CalCAP CS would continue the following collateral support contributions separate from the SAC contribution:

- Up to 40% collateral support on:
  - green and manufacturing loans, and
  - qualified small business loans from $50,000 to $250,000.
- Up to 30% coverage for loans greater than $250,000 for a 3 year term.
- Up to 20% coverage on loans greater than $250,000 for a 4 year term.

Table A in the Program Summary, excerpted here, contains the specific terms of support for the different types of loans:

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>Maximum Collateral Support Contribution</th>
<th>Support Rate</th>
<th>Maximum Term of Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Green and Manufacturing Loans $50,000 to $20,000,000</td>
<td>$2,500,000</td>
<td>Up to 40% of the loan value + 10% for business located in SAC</td>
<td>4 Years</td>
</tr>
<tr>
<td>Other Small Business Loans $50,000 to $250,000</td>
<td>$500,000</td>
<td>Up to 40% of the loan value + 10% for business located in SAC</td>
<td>4 Years</td>
</tr>
<tr>
<td>Other Small Business Loans &gt;$250,000 to $20,000,000</td>
<td>Up to 30% of the loan value + up to 7.5% for business located in SAC</td>
<td>Up to 20% of the loan value + up to 5% for business located in SAC</td>
<td>3 Years 4 Years</td>
</tr>
</tbody>
</table>

The changes to the narrative in the revised Program Summary clarify the fees and other requirements for the enrollment and renewal of lines of credit in the Program.

**Justification for Proposed Program Updates.** The Program has been through various phases since its launch in 2013 and has proved to be a successful credit enhancement mechanism that is highly utilized by various lenders. The previous changes made to the Program have focused on how to create longevity with the Program while maintaining lender’s attraction to it. The proposed program updates are now being established to ensure that there is a balanced ratio of SAC contribution to general support, for each qualified loan, and to provide clear and consistent guidance for the fees associated with lines of credit. The participating lenders were informed about these proposed revisions during a mandatory Lender’s Roundtable Conference Call convened on February 3, 2015.
If approved, the CalCAP CS Program Summary will be revised according to the revisions attached hereto, and published on CPCFA’s website for reference by lenders enrolled in the Program.

**Staff Recommendation.** Staff recommends the approval of these Program Updates to CalCAP CS, consistent with SSBCI standards and the CalCAP statute and regulations, in order to ensure that the CalCAP CS Severely Affected Community (SAC) support is consistently applied to qualified small business loans, and that lenders have clear guidance about the fees and other requirements associated with lines of credit.
WHEREAS, the California Pollution Control Financing Authority (“Authority”) was created under the provisions of Section 44500 of the Health and Safety Code; and

WHEREAS, Article 8 (commencing with Section 44559) of Chapter 1 of Division 27 of the Health and Safety Code provides that the Authority is authorized to establish a Capital Access Program for Small Businesses (“CalCAP”); and

WHEREAS, Section 44519 of the Health and Safety Code provides that the Authority may employ an Executive Director and any other persons as are necessary to enable it to properly perform the duties imposed upon it by the Authority’s statutes; and

WHEREAS, the Authority received an award from the United States Treasury (“Treasury”) under the federal State Small Business Credit Initiative (“SSBCI”) to further the objectives of the Authority’s CalCAP, and for a Collateral Support Program funded by the SSBCI award; and

WHEREAS, the Authority has determined that specific revisions to the Collateral SupportProgram (as more fully described in the February 17, 2015 staff report and revised Program Summary to the Authority) are necessary for the successful implementation of the Program.

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

Section 1. The revised Program Summary presented at the February 17, 2015, meeting is 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 approved updates to the Collateral Support Program.

Section 2. The Chair, Executive Director, or Deputy Executive Director of the Authority are hereby authorized and directed to take such actions to implement these approved updates, make such changes to the Collateral Support Program as may be required by Treasury under the terms of the SSBCI award, make or cause to be made such changes to the Regulations as may be required, 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.
California Pollution Control Financing Authority

CalCAP Collateral Support Program Summary

Revised as of 2/17/2015

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 a small business.

CalCAP CS is funded through the State Small Business Credit Initiative (SSBCI), a Federal program, and must conform to the rules and guidance of the SSBCI as well as the statute and regulations of CalCAP.

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.

A Qualified Lender must sign the Certification to Participate in the State Small Business Credit Initiative Program to participate in any Federally funded program and is required to abide by the assurances.

To become a participating lender in the CalCAP CS, submit Financial Institution Application and Certification to Participate in the State Small Business Credit Initiative Program 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 State Small Business Credit Initiative guidelines or CalCAP, 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, and gambling as further detailed in the SSBCI guidelines and 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 except for goodwill. 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.
Attachment

The same limitations on loan refinancing that apply under the CalCAP Loan Loss Reserve program funded by SSBCI 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 and matured.
- The new loan shall include a new extension of credit. This new extension must be meaningful and greater than the total of new closing costs or fees associated with the new loan.
- The new loan shall be based on new underwriting.
- An expressed benefit to the borrower must be provided to CalCAP CS.

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, business acquisitions where funds are used for goodwill, any portion of a SBA loan or other government guaranteed loan, and those uses prohibited by the State Small Business Credit Initiative guidelines and CalCAP.

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.
Attachment

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**

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>Maximum Collateral Support Contribution</th>
<th>Support Rate</th>
<th>Maximum Term of Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Green and Manufacturing Loans $50,000 to $20,000,000</td>
<td>$2,500,000</td>
<td>Up to 40% of the loan value + 10% for business located in SAC</td>
<td>4 Years</td>
</tr>
<tr>
<td>Other Small Business Loans $50,000 to $250,000</td>
<td>$500,000</td>
<td>Up to 40% of the loan value + 10% for business located in SAC</td>
<td>4 Years</td>
</tr>
<tr>
<td>Other Small Business Loans $&gt;250,000 to $20,000,000</td>
<td>*borrowers who have multiple supported loans may not exceed $500,000 in total collateral support</td>
<td>Up to 30% of the loan value + up to 7.5% for business located in SAC</td>
<td>3 Years</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Up to 20% of the loan value + up to 5% for business located in SAC</td>
<td>4 Years</td>
</tr>
</tbody>
</table>

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.

Page 8 of 11
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 support amount for each annual renewal on lines of credit.
- Lines of credit may only be renewed up to the length of time determined by the original support amount requested using Table A.

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.

### Attachment

**FEES**

**TABLE B**

<table>
<thead>
<tr>
<th>Original Term of Support</th>
<th>Eligible Green and Manufacturing Loans</th>
<th>Bridge Loans</th>
<th>Small Business Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>≤ 12 months</td>
<td>0.50%</td>
<td>0.50%</td>
<td>0.50%</td>
</tr>
<tr>
<td>12.1 months - 24 months</td>
<td>0.75%</td>
<td>0.50%</td>
<td>0.75%</td>
</tr>
<tr>
<td>24.1 months - 36 months</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
</tr>
<tr>
<td>36.1 months - 48 months</td>
<td>2.75%</td>
<td>2.75%</td>
<td>2.75%</td>
</tr>
</tbody>
</table>

There is a minimum fee of $500 for all loans. Fees will not be charged on the Severely Affected Community portion of the support.
Attachment

INCREMENTAL RECAPTURE SCHEDULE

TABLE C

<table>
<thead>
<tr>
<th>Original Term of Support</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-12 Months</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12.1-24 Months</td>
<td>50</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>24.1-36 Months</td>
<td>33.33</td>
<td>33.33</td>
<td></td>
<td></td>
</tr>
<tr>
<td>36.1-48 Months</td>
<td>25</td>
<td>25</td>
<td>25</td>
<td></td>
</tr>
</tbody>
</table>

*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 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 issuance 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 Approval will be sent to the lender. This commitment can be called upon for up to 90 days after issuance. The Collateral Support Approval will include instruction from CalCAP CS that a loss reserve account be opened when the loan is finalized. This collateral support loss reserve account is owned by CPCFA. 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 Approval with the final loan information and closing fees assessed according to Table B, notifying CalCAP CS that the loan has been funded. The 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. 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 periodically swept.

**Default and Charge-Off**

Lender must submit a [Collateral Support Default Notification](#) upon loan default, or within 30 calendar days after the maturity of the support, 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).

**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. No quarterly reports are required to be submitted for CalCAP CS.

All loan documents associated with loans enrolled in CalCAP CS are required to be retained until January 31, 2020, or three years after the maturity date of the loan, whichever is later.