



CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY

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AGENDA

CALIFORNIA CAPITAL ACCESS PROGRAM (CalCAP) California Pollution Control Financing Authority (CPCFA)

LENDER ROUNDTABLE CONFERENCE CALL

**Wednesday, May 28, 2014 at 2:00 p.m.
Call in number: (800) 230-1096**

• INTRODUCTION

- Welcome everyone to the May 2014 CALCAP lender roundtable. As the executive director of the CPCFA I am particularly appreciative of your participation in our state and federally funded financing program as lenders to small businesses in California. Your attendance on this call and the attention that you continuously pay to the various program criteria and updates are critical to the ongoing success and sustainability of the program.

I first want to start by introducing you to the CALCAP staff who have prepared this roundtable call and who do the hard work every day to make these programs possible for you. Most of you probably know that our former CALCAP manager Nancee Trombley received a promotion and is now working at a sister agency within the State's Treasurers Office. While we do miss her daily guidance here within CPCFA, I am very happy to inform you that Jillian Franzoia, who most of you know as our compliance officer, was promoted to the CALCAP manager and is ably filling Nancee's shoes.

In turn, our analyst Melissa Winchester was appointed as our

new compliance officer. She's with us on the call today. Also joining us is Emily Jarret who serves as a lead analyst in the CALCAP program and the principle staff in charge of the collateral support program. And we also have Moe Awazu our analyst who works tirelessly every day to ensure that each loan enrollment application is complete and quickly enrolled.

Today we will be sharing with you key updates related to our SSBCI and ARB funded programs. Before we dive into the weedy details I do want to underscore our efforts here at CPCFA to keep our financing programs as nimble and simple as possible. We recognize that a large part of the success of our small business financing programs is because they are simple to understand and to incorporate into a lender's loan portfolio and business operations.

In the face of changing policy objectives that make our state and federal government funding available for these loan assistance programs we strive very hard to communicate to our sister agencies the importance of keeping regulatory criteria out of our application process and to keep reporting to a minimum. For example, last fall when SB359 made 10 million dollars additionally available for our heavy duty truck loan program we worked extensively with the Air Resources Board to keep the program changes to a minimum and to maintain the borrowers privacy and with the U.S. Treasury we have repeatedly advised them to keep the federal program and reporting requirements as limited as possible to keep the programs attractive to lenders.

So with that I'd like to turn it over to Jillian Franzoia our CALCAP Manager.

- **WELCOME NEW LENDERS**

- I would like to welcome four new lenders to the CalCAP Family this afternoon.

Economic Development & Financing Corporation out of Ukiah, California is a non-profit CDFI that was founded in 1995 and focuses on economic development activity in Mendocino and Lake Counties.

Trans-Pacific National Bank is a community bank serving the San Francisco Bay Area since 1984.

Genesis LA Economic Growth Corporation is a CDFI and CDE that was created in 1998 with a mission to provide capital to low-income neighborhoods throughout Los Angeles County.

And finally, Express Finance & Loans, a finance lender out of Beverly Hills that will be participating in our ARB On-Road Program.

Welcome!

- **ARB UPDATE**

- Our ARB On-Road Program is going strong. We are continuing to see increased activity each month. Our new contract went into effect on March 4th, with this new contract we now require that all loans have an interest rate of 20% or less and the borrower's fleet size is 10 or fewer at the time of loan.

We currently have about \$11.8 million available to support enrollments under the new requirements.

We would like to commend you on the transition to the new contract and the use of the updated forms. We appreciate your effort to make these adjustments.

Now Renee is going to give an SSBCI update.

- **SSBCI UPDATE**

- Thank you Moe.

At the beginning of May, CALCAP staff represented California at the annual SSBCI conference in Washington D.C. and we represented the state well. We were invited to speak on two panels discussing best practices in the nationwide program and more importantly there was a report on the loan volume, cumulative nationwide, funded by SSBCI and the treasury reported on the top 15 lenders nationwide who've been participating in the program by loan volume. 7 of the top 15 are here in California.

At the very top is Opportunity Fund who has enrolled, and this was cumulative through the end of 2013, enrolled 2470 loans and also making the top 15 list was Murphy Bank, Accion San Diego, Pacific Enterprise Bank, TMC Working Development Solutions, Fresno Community Development Financial Institution, and Oakland Business Development Corporation. So we want to congratulate those institutions for making California shine on the nation's stage and then as well as all of the participating lenders who have contributed collectively to us accelerating our expenditure under both our CALCAP and our collateral support programs.

Also, while we were in Washington D.C. we learned from the U.S. Treasury what the process will be for applying for our third tranche or distribution of federal funds. We are very quickly going through the funds allocated to the CALCAP and the collateral support programs we also have learned from our sister agency over the infrastructure bank, the I bank, that the expenditures under the loan guarantee program is steady. So based on those trends we are expecting that we will be

positioned as a state to apply for the third tranche of funds in the middle of this summer, and later in this phone call you're going to hear about some of the specific things that treasury will be looking for when we do apply for that third tranche and it will involve many of your program transactions and we'll go over the details a little bit later in the call.

So with that, I'd like to open it up for questions if there are any. We have more to cover in detail but if there is any question about the updates or the highlights that we've provided you thus far, please indicate that.

- **ENROLLMENT APPLICATION UPDATES**

- Lender Certification Page

- ❖ In an effort to simplify our application process, we have eliminated the spaces for the lender initials on the second page of our CalCAP enrollment application for both the Small Business and ARB On-Road Programs. Instead of requiring an initial for each line item, we added language to the bottom of the application that states, "By signing below and enrolling this loan the Participating Financial Institution certifies, based in part on information provided by the Borrower, that each of the above assurances is true and accurate". The signature of an authorized signer will be what is used to certify to each of the rules and regulations listed on the enrollment application. This change will also be made to lender Certification that accompanies all final Collateral Support applications. This updated applications and certifications have been added to our website. Please ensure that you are using the most updated version of our applications, dated May 23rd 2014 for CalCAP Small Business and ARB and May 28th for Collateral Support. We will require that all

applications submitted to CalCAP on May 29th or after be on the revised applications.

- **CLAIM FORM AND PROCESS UPDATES**

- Recoveries

- ❖ In our ongoing effort to provide guidance for every aspect of CalCAP, we are focusing on our claims process this quarter. We are taking many steps to streamline the monitoring of our claims. We have updated our claim form and will be posting it to the website soon. In addition, CalCAP will be including the review of claims in our annual lender site visits. In the upcoming weeks you will receive a letter from us reminding you of CalCAP's recovery requirement on claims. This letter will include a list of all the claims ever filed by and paid to your institution for your reference.

- Reporting charge-offs

- ❖ Lastly, CalCAP will require that you report claims on your quarterly report. The section already exists on the report. For an example of how to utilize it, please refer to the quarterly report template on the CalCAP website. As a courtesy to our lenders who have already filed claims in the program, one time only, we will be adding your existing claim data to your quarterly report so that you can enter new claims going forward. Please utilize this section of the quarterly report to inform CalCAP of recoveries

- **COMPLIANCE UPDATE**

- Update Authorized Signers for all programs

- ❖ In CalCAP's ongoing effort to honor national best practices for capital access programs, we are requiring all lending institutions to submit a list of authorized signers. An authorized signer is any individual at your institution that is permitted to submit enrollments and file claims with CalCAP. The list of authorized signers

should include the name, title, and signature of the individual, on your Institutions letterhead and indicating the current year. This will be an ongoing annual requirement. If at any time you would like to add or remove someone, please send the updated list to the CalCAP email box.

- Annual Lender Site Visits
 - ❖ It's that time of year again and as part of our compliance with SSBCI guidelines, we will be conducting our annual site visits to all lenders that have participated in the Federal fund program and enrolled loans between May 2013 and April 2014. The site visits will be between now and the end of this year. We will notify you by email when we intend to visit your office. Prior to our arrival we will give you a list of loan files that we will review and some questions we will be asking. After reviewing the loans we will have a short interview to tell you you're doing a great job or perhaps to discuss any issues. We will then compile a report of the findings and share those with you. We are pleased with the files each time we come on site for a visit. US Treasury staff will be coming to California when we request our 3rd disbursement, so they may want to visit some of our lenders as well. Please pay careful attention to the accuracy and completeness of all loan files. We look forward to another successful site visit season.

- No dual enrollments
 - ❖ The SSBCI FAQ's and State policies prohibit the enrollment of a loan in more than one SSBCI or related government program. Unfortunately, because of these rules we cannot support any loan that has been enrolled in another Government program with our funds. More specifically you cannot enroll one loan into both CalCAP and the State Small Business Loan

Guarantee Program. Our application already asks about enrollment in another government program and we have been informed that the Loan Guarantee Program will be making the same request on their loan application in the near future. So when applying to CalCAP or Loan Guarantee please apply to the program you think is most appropriate.

- Audits (SSBCI and OIG)
 - ❖ Several of us just returned from an SSBCI National Conference where all fifty states and the municipalities that received SSBCI money from US Treasury meet to discuss best practices in the various programs, compliance questions and updates, sustainability of the programs and a variety of other helpful topics. This year we heard from the Office of Inspector General who is charged with conducting the audits for the SSBCI programs. For those of you who are newer lenders to the CalCAP SSBCI program, you may not be aware that in November of 2011, the OIG spent a week in California auditing our CalCAP files and also visited three of our lenders to do on site audits of this loan files. There is a possibility that the OIG auditors will visit California again before the Program ends in 2017, so we urge you to be careful and ensure your files are complete and have all required SSBCI assurances and documentation.

In addition to the OIG visits, we are also expecting a visit from the compliance team at US Treasury in the coming months, as Melissa mentioned. When we apply for our third and final disbursement of SSBCI funding, US Treasury staff will be coming to California

to do an on-site compliance check of our files. We still do not know the exact time frame of the visit; however we will be contacting you should we require additional information regarding specific loans.

US Treasury has made us aware that they intend to review and focus on the follow three items during their review.

- Credit Memo required for all transactions
 - ❖ We also learned at our SSBCI conference that the OIG auditors are requiring that a credit memo is completed for all transactions in any SSBCI supported program. We do know that each Collateral Support transaction has a credit memo because those must be submitted with the support requests, however with our CAP loans; these are not something we collect. Please note that for all transactions, whether they are new loans, extensions, or restructures, a credit memo or narrative must be included in the loan file, in its entirety. If you are making another loan to a current borrower, you should be looking at new tax returns and doing new underwriting for the new loan.
 - ❖ On a similar note, when you do have a returning borrower please be sure that the information provided, especially regarding annual revenues and the jobs count, makes logical sense. We will question this information if it does not seem to match with the previously enrolled loan to the same borrower.

- Collateral Support – assessment of need for collateral
 - ❖ Many of you have begun to utilize our Collateral Support Program. I would like to provide you some insight to our review process for these requests. During CalCAP’s review of your risk assessment of the borrower, we look to see an expressed collateral need of the transaction. Why does this transaction specifically need **collateral** support? If you don’t feel your existing loan write up speaks clearly enough to this aspect of the transaction, please provide additional justification to satisfy this requirement of the Program. When we review incoming requests, if we feel the justification is lacking we will ask for more information to substantiate the collateral need of the loan.

- Conflict of Interests and Regulation O
 - ❖ While we were in Washington D.C. the OIG and the U.S. Treasury also underscored their interest in making sure that all loan transactions are free of conflicts of interest. Their primary concern doesn’t necessarily apply to California. They are looking at states which contract with a third party administrator for the implantation of their SSBCI program. They’re also looking at states which fund venture capital transactions. However, they did underscore the importance of making sure that each loan transaction is free of the basic restrictions against conflicts of interest.

Most of you should know or be familiar with regulation O which is the federal regulation issued by the Treasury which requires arm’s length transactions

between the officers, directors and other significant decision makers of lenders and any loans they extend. So familiarize yourself with regulation O. We will be putting that as a reference for you in the tool section on our website for your reference and again to pay particular attention to the loans you enroll in our SSBCI program are free from those restricted conflicts of interest.

With that we're going to open up the phone lines again. If there are any questions about anything we have covered so far or general questions about SSBCI we are happy to answer them now

- **CLOSEOUT**

- Thank you all for participating on our Lender Roundtable call today. Attached to this agenda in the email that was sent last week was a revised version of both the SSBCI National Compliance Standards and the SSBCI FAQs. The most substantive change is in the conflict of interest section relating to Venture Capital Programs, which we do not have. However, the compliance items we discussed today are covered in these documents and we will be putting the National Standards, the FAQs and the SSBCI Policy Guidelines up on our website this afternoon for you to reference at any time. You can find the documents at the bottom of the CalCAP homepage under "News and Information".
- As always if you have additional questions after the call please feel free to contact us or send questions to the CalCAP email box. Thank you again and have a good afternoon.