INTRODUCTION

We’re very pleased with the growth of the CalCAP program over the past year. With the infusion of our federal funds and state funds, our ability to go back to historic rates of contributions to loan loss reserve accounts, the expansion of the on road diesel truck and off road diesel equipment programs, we have seen record volumes of loan enrollments. Prior to 2011, our highest number of enrollments was in 2010 when we enrolled 943 loans in CalCAP. In 2011, we enrolled over 1500 loans in the program. We’re on a pace already in 2012 to far surpass that number.

With all of this activity in CalCAP, we’ve gone through quite a few changes. There are new requirements that went along with our use of federal funds. Our diesel programs have their own additional requirements. And, we’ve gone through some process reviews internally that have resulted in some procedure changes. With the use of our federal funds, our office, as well as lenders using federal funds, are subject to potential file inspections or audits by U.S. Treasury. Recently, a group from the U.S. Treasury Office of Inspector General paid a visit to California and included several lenders in their review of CalCAP enrolled loans. They told us that, in some cases, the lenders did not seem to know the CalCAP requirements and that their files were missing required borrower assurances.

We’ve tried to make the CalCAP program as lender friendly as possible, but we do continue to have state and federal requirements. In order to assure you comply with these requirements, we post much information on our website, we provide regular email communication and we have these lender roundtables. It is especially important that you communicate information from our emails, website and lender roundtables to your colleagues who are working on CalCAP loans.

When you enroll loans, we have you verify a number of specific items when you enroll each loan and we have verification from your institution that you will understand and abide by our regulations. You are required to initial each of these items on the back of the enrollment form. When you initial these items, we assume you understand what you are initialing. One of these items, as an example, is that you have received certain specific borrower assurances. Evidence of these assurances should be maintained in your loan files in the event of an audit. If we find that you aren’t able to comply with these sorts of requirements, it may affect your ability to continue to use the program. As part of our due diligence to assure that required documentation is being maintained for enrolled loans, we will be starting a process of
periodic site visits to participating lenders to review files and discuss the program. We haven’t worked out the details or frequency yet, so we’ll let you know more later.

Our regulations have been updated several times over the past year. The most recent substantive changes affected several items including improving the definitions of qualifying loans, making the claims process easier for lenders to use and several other changes. These regulations went into effect last year as emergency regulations and are in the process of being made permanent this month. A new regulation related to the definition of microlender is in the works and will be discussed in a few minutes.

We have quite bit to cover today. We’ll stop several times to check for your questions and we’ll give time at the end for anything additional.

- **WELCOME NEW LENDERS**
  - I would like to welcome our new lenders: Tri Counties Bank; Umpqua Bank; NCB Capital Impact; Los Angeles Firemen’s Credit Union; Sierra Economic Development Corporation; and CalFund. Welcome to the CalCAP family. We look forward to seeing your enrollment applications!

- **LOAN ENROLLMENT REQUIREMENTS**
  - We wanted to remind you of the mandatory additional documents that are required for any loan that is submitted for enrollment in the CalCAP program
    - Privacy Notice – All borrowers with a loan enrolled in CalCAP, regardless of the program, must receive a copy of the privacy notice. You have initialed on the second page of each loan enrollment application certifying that the borrower has received this notice. This document is for the borrower, and is neither submitted to CalCAP nor do we require it in your loan file.
    - Sample Borrower Certification for Federal Fund – This document is a sample for you to use as a template to create a borrower certification for all non-ARB enrollments. All borrowers with a loan enrolled in CalCAP must sign a borrower certification that acknowledges they understand the requirements of the program. This document is for your file and should not be submitted to CalCAP.
    - Sample Borrower Certification for Independent Contributor Programs – This document is a sample for you to use as a template to create a borrower certification for all ARB enrollments. This document is for your file and should not be submitted to CalCAP.
• INDEPENDENT CONTRIBUTOR PROGRAMS

Prop 1B Loan Assistance Program:

- We have a new Independent Contributor program with ARB for drayage trucks. All of the contributions will be coming from The Air Resources Board, so there will be no fees to the lender or borrower. However, in order for a borrower to qualify for a loan that is eligible for enrollment in the Prop 1B Program, they must have received an invitation from ARB that indicates they are eligible for a grant from this program. We have received $5 million from ARB to provide loan assistance to lenders. This program will be similar to our other ARB programs, where ARB will contribute a specified percentage of the enrolled amount into the lenders loan loss reserve account. In this program, the contribution will be 20% of enrolled amount and will be paid into the lenders current LLR account for the ARB on-road program.

CalCAP is willing to pre-qualify any loans that will be made for this Prop 1B program as an extra form of security for our lenders since you have to provide a proof of financing letter with the ARB portion of the application. These pre-quals will be valid for six months. We expect to use the entire $5 million that was allocated to this program by ARB, so we will be funding these loans enrollments on a first come, first served basis, beginning with pre-qualifications received. All of these trucks are eligible for our on-road program, so we will be able to enroll them in that program. We believe that we will be able to do that at a 20% contribution rate as well, but we are waiting on confirmation from ARB.

To submit a pre-qual for this program, the lender would fill out the ARB specific loan enrollment application. The date of loan and maturity date may be left blank, as well as the lender loan number if that has not yet been assigned. Reminder, all loans enrolled in this program must have an interest rate of 20% on less. The lender would then submit this completed application along with a copy of the invitation letter sent to your borrower by ARB to the CalCAP mailbox. A borrower certification for this program will be posted on our website in the next few days, but this will not need to be completed until the final enrollment is submitted to CalCAP.

ARB On-Road and Off-Road Program Updates:

- The Air Resources Board is in the process of removing 2011 or newer trailer eligibility from the On-Road program. Trailers regulation requirements with ARB have expired, therefore a trailer alone will no longer be eligible. If you have a tractor purchase that includes a trailer in the loan, we will still allow you to enroll both for the entire amount.

- (ARB) Off-Road program is considering allowing Marine Vessels and Locomotives in the program at a 14% contribution rate with no fee to the borrower or lender. This would be for a re-power, replacement or retrofit of boat or train engines of a particular tier. We will keep you updated on this as we learn more. If you are a lender of Marine Vessels or Locomotives, I would like to hear from you after the call. You can email me at NTrombley@sto.ca.gov or call me at 916-651-8663.
**CalRecycle:**
- CalCAP has an Independent Contributor program with CalRecycle that focuses on assisting small businesses that produce a value-added product from recycled or recovered material. CalCAP initially started this interagency agreement with CalRecycle in 1999, and had continually renewed the contract. However, the contract expired in June, 2011. The new CalRecycle contract is currently being finalized in the CalRecycle Contracts department. CalCAP staff expect to have the final version of the contract by the end of February, 2012, and will send out an announcement to all lenders when it is received. The new contract essentially mirrors the previous contract with CalRecycle. The one major difference is that CalRecycle will now be paying the borrower and lender’s fee, whereas they had previously only paid the borrower’s. CalCAP will continue to contribute by matching the combined premiums. Lenders will be able to find more information on this program next month on the CalCAP website under Lender Tools.

- **SEVERLY AFFECTED COMMUNITIES**
  - If your loan enrollment is for a borrower located within a severely affected community it may qualify for an additional premium equal to the amount of the lender premium. Borrowers with addresses in High Unemployment Areas, areas with an unemployment rate above 110% of the statewide average, or Enterprise Zones are located within a Severely Affected Community. Amendments to the CPCFA statute included in AB 981 granted the Executive Director the ability to return to paying a higher contribution to lenders with qualified borrowers located within a Severely Affected Community. When an enrollment qualifies for the Severely Affected Community contribution the lender and the borrower both deposit a fee of 2% to 3.5% of the loan amount, CalCAP deposits a Federal or State fund match of 3% to 7%, and a Severely Affected Community match of 2% to 3.5% using the State fund. The total contribution from all sources for these enrollments to the lender’s loss reserve account can be up to 17.5% of the enrolled portion of the loan.

  Increased Severely Affected Community contributions are not available when an Independent Contributor pays all CalCAP Fees. An explanation of how to determine whether an enrollment qualifies for the Severely Affected Community Premium is available on our website under Tools for Lenders.

- **MICROBUSINESS LENDERS**
  - We are taking another regulation change to our Board for approval on February 21st. The only change in this set of new regulations is the addition of microbusiness lenders to our program. Assembly Bill 901 was approved by the Governor and went into effect on January 1st. This bill allows microbusiness lenders to be qualified lenders in CalCAP. CalCAP staff held a public discussion on January 19th to obtain some additional information about microbusiness lenders and to gain a better understanding of how microbusiness lender should be defined as a part of CalCAP.
We plan to define microbusiness lenders by expanding on the definition that was given in the legislation. The definition of microbusiness lenders will be added to the current definition of “Financial Institution” and will state “Financial Institution also includes microbusiness lenders, as defined in Section 13997.2 of the Government Code that make small business loans and require a minimum of four hours of preloan business technical and/or credit assistance to borrowers and a minimum of two hours of postloan assistance each year, and is subject to an annual audit requirement by its Federal or State regulated funding source”. If the Board approves this proposed change to our regulations, we will move forward with the next steps. We expect this to go into effect in the first or second week of March.

ATTACHMENTS:
- Severely Affected Communities Instructions
- ARB Prop 1B Borrower Certification
- Privacy Notice
- Sample Borrower Certification for Federal Fund
- Sample Borrower Certification for Independent Contributor Programs