



CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY

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Reneé Webster-Hawkins

AGENDA

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

LENDER ROUNDTABLE CONFERENCE CALL

**Wednesday, December 18, 2013
2:00 p.m.**

Call in number: (800) 398-9379

- **INTRODUCTION**

- ❖ Good afternoon everyone and thank you for joining us for this lender roundtable conference call. I am Nancee Trombley, the CalCAP Manager. On this call today we will be discussing regulation and compliance issues related to our Federal Funds, that we also call SSBCI or Treasury funds. If you are an ARB lender that only participates in the truck program, you are welcome to stay on the call, however do not have to since we will be having a separate ARB conference call right after the new year to discuss new truck program related items.

Since our last conference call, we have two new staff members: Ian Davis and Melissa Winchester. They are both CalCAP analysts and you may recognize their names as those who work on your enrollment applications and claims.

We are becoming quite a large group at CalCAP and will be expanding our staff again at the first of the year. I've already introduced Ian, Melissa and myself, so I'll have the rest of our group introduce themselves.

The last introduction I would like to make is our new Executive Director. Many of you know that the former director, Michael Paparian, was appointed Deputy Treasurer, and still has a role

with CPCFA as a member of the Board of Directors. He was replaced back in June and it is my pleasure to introduce our new Executive Director Reneé Webster-Hawkins.

- ❖ Good afternoon! I am very happy to attend my first Lender's Roundtable. I joined the California Pollution Control Financing Authority in May just after your last roundtable. As you know, I have inherited a strong agency that has been under very capable leadership. I feel fortunate every day to work with a CalCAP team that is centered on customer service and which is dedicated to meeting the needs of the participating lenders and small business borrowers. I have served in the administrations of several state agencies, and the staff here at the Authority exemplifies the highest level of public service I have encountered. You probably already know this, but you are fortunate to have Nancee and her team as your primary contacts for our CalCAP loan programs.

A little later on in this meeting, I will provide you with a high level overview of the status of the Federal funds we receive from the U.S. Treasury. For better or worse, I am well-steeped in administering federal stimulus funds through grant, loan and direct subsidy programs on behalf of the State. So I recognize that there is almost an inevitable set of developmental stages that a federally supported program must progress through. As you will hear today, the Treasury is proposing a small set of new rules, and also reinforcing or clarifying some existing rules, as a result of the federal government's collective experience of auditing the records of the various states including California. I predict that this will continue to occur for the next 6-18 months, as new questions arise from the loan and investment transactions inspected by Treasury and the Office of Inspector General. So, we will convene these roundtables as frequently as necessary to keep you apprised of the emerging guidance from Washington DC, and to provide you ample opportunity to gain clarity on your end. In addition, we encourage you to ask questions as they arise in the context of specific loan transactions. In the email we distributed with the agenda and supporting materials for today's call, we included email addresses for both our CalCAP staff here at CPCFA, and for the SSBCI staff at the U.S. Treasury, and we encourage you to use them to pose your questions. As always, we will do our very best to help you apply the Treasury's rules in the most practical and efficient way. There may be times, however, that

we will defer your question to the Treasury, if your question is novel. If we do that, we will be sure to advocate for the quickest possible response. We maintain a strong relationship with our program liaison in Washington, and it is clear to me that the Treasury is committed to helping California perform as a model SSBCI program.

Today's agenda is deliberately focused on our SSBCI programs. For those of you who also participate in the Truck Loan program we administer for the Air Resources Board, we will be hosting a separate roundtable conference call within the next few weeks. Just yesterday, the Board of CPCFA approved a new \$10 million agreement with the ARB to continue that program, and there will be a few program changes that we will review with you. So please look for the announcement of that event shortly after the first of the year.

• **WELCOME NEW LENDERS**

- ❖ I would like to welcome our new lenders. The following list of new lenders are enrolled in CalCAP's State, Federal and Collateral Support Programs:

Bridge Bank, NA	Los Angeles , CA	A business bank targeting the small and middle market companies
First Northern Bank of Dixon	Dixon, CA	Locally Owned Community Bank
Farmers and Merchants Bank of Central California	Lodi, CA	Is a full service Community Bank. Serving the greater Central Valley Since 1916
Manufacturers Bank	Los Angeles, CA	Community Bank Serving the Los Angeles Community for over 50 years
Pan American Bank	Los Angeles, CA	Serving small businesses of East Los Angeles and Santa Ana for 49 years.
Progresso Financial Corporation	Menlo Park, CA	CDFI – Financial Service Lender
Celtic Bank Corporation	Salt Lake City, UT	Headquartered in Salt Lake City Utah, Celtic Bank Corporation offers full service Business Solution

- ❖ We also have three new ARB Truck lenders:

Snider Leasing Corporation	Sacramento, CA	Finance Lender – Serving the Capital Region since 1955
Maxim Commercial Capitol, LLC	Los Angeles, CA	A Commercial Finance Lender

Advantage Funding Commercial Capital Corp	Lake Success, NY	doing business in Northern California with headquarters in Lake Success, NY, Advantage Funding Commercial Capital Corp is a Finance Lender
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- ❖ Welcome to the CalCAP family. We look forward to seeing your enrollment application!

- **REGULATION CHANGES**

- Eligible business purposes under SSBCI
 - ❖ We are happy to announce an upcoming change to our CalCAP regulations section 8070(s)(4)(A), regarding Qualified Loans. We will be removing the language “...store whose principal business is the sale of alcoholic beverages for consumption off premises...” This change will allow us to enroll loans to wineries and breweries using our Federal and State funds. We feel these industries have a positive impact on California’s communities and are excited to expand our lending assistance into this important economic sector. However, bars and liquor stores will remain prohibited. We took the proposed change to our Board yesterday, the 17th, and we will notify you when the change comes into effect.

- Pre-Qualification process
 - ❖ Just this week on December 17th, the CPCFA Board approved the proposal of regulatory changes to the Pre-Qualification process. Presently the regulation requires participating financial institutions to pre-qualify any loan with a principal amount of \$500,000 or more. In an effort to simplify the programs, this regulation change will eliminate the requirement. Lenders will no longer be required to pre-qualify loans whose principle amount exceeds \$500,000. However, lenders will still have the opportunity to submit pre-qualifications if they are unsure whether the loan is eligible and compliant. The regulation also states that “Pre-qualifications do not necessarily guarantee that funds will be available at the time of final enrollment, unless the funding source requires it.” This regulations change does not include the Collateral Support Program which will retain the same qualification process.

For those lenders who are interested in requesting a pre-qualification for either the ARB On-Road Program, CalCAP Small business Loan Program’s SSBCI, or State funds the process will remain the same. The Pre-Qualification form is just the first page of the program’s CalCAP loan enrollment application which can be found on our website. Please submit the application to our CalCAP email box with the borrower and loan information. The loan number, date of loan, and maturity date may be left blank. The reviewed pre-qualification will be

scanned and emailed to the lender with instructions on how to submit the actual loan enrollment application. Any significant changes to the final enrollment request will negate the pre-qualification.

- **STATUS OF FEDERAL FUNDS**

- ❖ I am happy to report the status of our federal funds. As we near the end of 2013, our stats show that our SSBCI-funded loan loss reserve program has kept a steady pace. This year so far, we have paid over \$1.8 million in contributions to support \$51 million in loans originated by our lenders, spread over 1400 separate loans. In total, we have contributed nearly \$5 million in federal funds to loan loss reserve funds supporting \$142 million loans since 2011.

The real news as you probably know is the recent growth in our new Collateral Support Program. To date, we have provided over \$12 million cash support for 26 loans. We have another \$6.9 million obligated for pending loans. Some of you find the Collateral Support Program useful for covering a collateral shortfall inherent in bridge loans in anticipation of SBA or USCA loan guaranteed loans. Others are applying for small businesses with a solid financial track record looking to expand their business through real estate acquisition, tenant improvements, and working capital. Due to the amount of money associated with the cash support of these loans, please have patience with us as we seek to confirm with you certain aspects of these loans during the screening process. Based on a recent inspection of our loan portfolio by the U.S. Treasury, it is clear that the Collateral Support transactions will receive greater scrutiny. So we want to be sure that all lenders and borrowers are confident in the eligibility of the loan under the SSBCI rules.

Because of the uptake in Collateral Support, we ran short of the federal funds we have on hand, and temporarily suspended new Collateral Support applications in mid-November. The U.S. Treasury took this suspension and its impact on California very seriously, and fast-tracked its review of our application for the next tranche of SSBCI funds. Again, I want to express appreciation to those of you that quickly responded to our requests for information on specific loans that Treasury examined as a part of that review. As a result of your cooperation, and diligence in maintaining sound records, we are pleased to have received an email just yesterday that confirms that California will be receiving approximately \$54 million in the next 2-3 weeks. That tranche of funds will be split between the CalCAP programs and the State's Small Business Loan Guarantee Program administered by the I-Bank. As soon as we

receive notice that the federal funds have hit the State Treasurer's Office, we will inform you by email and resume accepting new applications for Collateral Support. In the meantime, if you submitted an initial request which was already approved by CPCFA, you are welcome to come in for the final approval, as those funds were reserved for you pending final approval of the loan.

- **SSBCI FEDERAL FUNDS PROGRAM**

- ❖ The SSBCI Federal Fund Programs across the nation are gaining momentum and success. One of the Federal requirements of States participating in the program is an initial audit from the Office of Inspector General (OIG) (Which we've already been through), audits from Treasury each time a request for additional funding is made (which we are going through now) and, the Treasury itself is audited by OIG. As lenders, I'm sure you are all familiar with the changes that occur after an auditor makes a finding. Well, it's the same in our program. With SSBCI being a relatively new program, each time an auditor comes across a new situation in any State, recommendations are made to the U.S. Treasury to revise its policies for all of the States. We have recently been informed of several new policies that we will be implementing.
- Enrolling a loan in another government program
 - ❖ One of them is in regard to SSBCI Funds and other government programs. There will be a prohibition on combining transactions in more than one government program. Before anyone panics, this does not affect the enrollment of a 504 bridge loan prior to the debenture. What this means is, a lender cannot enroll the same loan in two different government programs, regardless of the percentage they are trying to guarantee. For example, you cannot enroll 50% of a loan in CalCAP and the other 50% in the Loan Guarantee Program.
- SSBCI Funds and SBA Loans
 - ❖ The same holds true with trying to combine an SBA or USDA loan with any SSBCI program. You also cannot split a loan in two and enroll each loan in two different programs if the loans are for the same purpose. For example: you can't enroll a loan in SBA and a loan in Collateral Support if the loan was split up to purchase Real Estate. However, if the SBA loan is for real estate and the Collateral Support loan is for equipment; that would be fine.
- Transactions that generate tax credits
 - ❖ There are also new rules around transactions that generate tax credits. There will be a prohibition on using our federal funds in combination with a transaction that generated tax credits,

including a New Markets Tax Credit (NMTC) or Historic Preservation Tax Credit transaction. An SSBCI-supported transaction cannot be used to increase the pool of funds that generates tax credits, however; SSBCI funds may be used alongside a transaction that generates tax credits.

- Refinances

- ❖ In light of some new audit findings, we want to remind our lenders about the rules of Refinancing. When refinancing debt from another lending institution for any of our federal programs, you will need to be able to verify the original loan at the other lender was also used for a qualifying business purpose. If it was originally for the purchase of real estate it had to have met the owner occupancy rules as well. We realize this information might be difficult to obtain, and if you can't get verifying documentation, we can always enroll that loan in CalCAP with our State funds. When refinancing a loan originally held by another, you must be able to make a determination that the transaction is beneficial to the small business borrower and justify the determination to CPCFA.

The rules regarding refinance exception at your own lending institution have been in effect since April 2013, yet we feel it would be valuable to go over them again.

When refinancing a loan that is already held at your lending institution, there are four additional criteria to meet in order to qualify that loan.

1. The new loan must have an advance of new funds
2. There must be new underwriting and justification of the borrower's ability to repay.
3. The old loan must have matured
4. The purpose of loan cannot be just to refinance old the debt

Lenders must maintain documentation to verify that these four criteria were met. CalCAP may ask for this documentation prior to enrolling the loan. Extensions of credit on existing CAP loans are different than refinances and are not subject to the four criteria. When extending credit you only enroll the extension amount.

- Commercial real estate

- ❖ We also want to mention rules regarding commercial real estate. For businesses purchasing an existing commercial real estate property, the property must be at least 51% owner occupied. For new construction the property must be at least 60% owner occupied. If there is an operating company and a holding company involved, you must maintain a copy of the lease agreement in your file.

There is a lengthy explanation regarding passive real estate exceptions listed in the SSBCI FAQ's provided. We aren't going to go over those today, but we have provided the rules for you in case you had questions on the topic.

- Collateral Support Program update
 - ❖ Renéé addressed our funding for the Collateral Support Program earlier in this call. We are very proud of the fact that we have been able to provide speedy turnaround on the Collateral Support Requests, however, with the increase in participation in all of our programs, we will be hard pressed to maintain that speed. We will still be able to provide you great customer service that falls within our regulation requirement of 15 business days for answering complete applications.

- **COMPLIANCE UPDATE**

- Annual Lender Site Visits
 - ❖ We have completed our 2013 SSBCI Site Visits and are finishing up a few last reports and close outs. We will most likely begin our 2014 Site Visits in June or July, but like this year, we will not be able to finish our visits until the end of the year. The results from this year's visits are looking great. We have encountered very few errors or issues this year. Thank you so much for your diligent work.

As we continue to receive additional and clarifying requirements from Treasury, we will keep you apprised. The scope of the 2014 site visits will most likely expand to include the additional guidance we continue to receive. Nancee just reviewed several important topics as part of the SSBCI requirements. In addition to the items we have reviewed in our last two site visits, we will be looking for documentation related to refinances, commercial real estate and whether the loans are also enrolled in other government programs.

- Changes to Borrower Certification
 - ❖ At the recommendation of U.S. Treasury, we have made a few minor changes to the CalCAP Borrower Certification we require for each SSBCI enrolled loan. Please refer to the second page where we have added additional fields to the end of the certification to ensure we receive all the information U.S. Treasury requires when reviewing our files. The request for borrower/business name is now split into two fields. Please include the name of the small business receiving the loan on the line marked "Business Name" and indicate the name of the individual signing the certification on behalf of the business as the "Individual Name". The "Individual Name" should match the borrower's signature below. We have also added a field for the title of the borrower. In this field please indicate the individual's relationship to the business. For example, owner, president,

guarantor, etc. would be acceptable. Please remember, if a borrower or guarantor(s) on a loan is not a part of the small business ownership, those parties must also sign a borrower certification. All fields on the Borrower Certification must be complete prior to enrollment. The revised certification will be up on the CalCAP website today or tomorrow and you may begin using it immediately. However, the new certification will be required for all enrollments submitted on or after January 1st 2014.

- Additional Compliance Items

- ❖ I also would like to take this opportunity to mention a few other compliance items. We will be sending out an email after the first of the year to those of you participating in our SSBCI Programs requesting an updated Lender Certification to Participate and an updated list of authorized signers for your institutions. We were notified yesterday by U.S. Treasury that they may be requesting one piece of additional information about our lenders that we will add to the certification. As soon as we know if changes will be made, we will notify you that a new version is available and will request you submit a completed certification to the CalCAP email box.
- ❖ In addition to the Certification to Participate we will also be sending out an addendum to our loan enrollment application that will be required for all loans identified as refinances, commercial real estate purposes and for loans enrolled in other government programs. As Nancee mentioned, Treasury is specific about the eligibility requirements, so the addendum will include supplemental information required to ensure compliance with the SSBCI rules on these types of loans. This addendum is currently in draft form, but we will begin requiring it to be included with loan enrollments submitted on or after January 1st 2014. Once the addendum is final will we notify you via email and post it on the CalCAP website.
- ❖ Finally, I would like to encourage each of you to take a look at the links that were included in the email that was sent yesterday with the agenda for this call and all of the attachments. These links will lead you to the complete versions of the SSBCI Policy Guidelines and FAQs. We have also included the email address to SSBCI's question box and encourage you email U.S. Treasury about any specific questions you have regarding specific loans or situations. Please cc CalCAP on any emails you send so we can be aware of the repos. You may send your questions directly to CalCAP and request we forward it on to U.S. Treasury if you prefer.