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AGENDA

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

LENDER ROUNDTABLE WEBINAR

Wednesday, August 3, 2016
10:00 a.m. (PST)

❖ INTRODUCTION

Welcome! We are glad for your participation on our Lender Roundtable Webinar. So you know who we have in the room at the California Pollution Control Financing Authority, I will offer introductions. I am Reneé Webster-Hawkins, Executive Director of CPCFA. I am happy to introduce Elena Miller, our new Deputy Executive Director. Next, we have the CPCFA Outreach and Strategic Development Manager, Janae Davis. We have with us the two Program Managers of the CalCAP Program, Doreen Smith and Bianca Smith. Also, we have Jason Bradley, the Program Manager specializing in the Electric Vehicle Charging Station CalCAP Program. Lastly, we are joined by staff analysts Betina Brantley and LeAndre Henry.

During this presentation, you are in the mute mode on the telephone. You may chat with us and submit your questions for us throughout the webinar through the chat feature in GoToWebinar. Depending on the nature of your comment or question, we may answer your question quickly through the chat feature, or we may save it to address orally at the end of the presentation during our time for Questions and Comments. We do have a fair amount of material to be covered today that is important for you and your colleagues to be informed about as Participating Financial Institutions in the CalCAP programs. We often get individual questions from lenders about subjects that are covered in these conferences. For your convenience and reference, we have the archive of our Lender Roundtable agendas and presentations on our CalCAP Webpages. We hope that you are making it a regular practice to review those materials, and certainly to have new loan officers and analysts review the materials to increase their understanding of the CalCAP programs. If you have colleagues that cannot attend today, please be sure that they take the time to view the presentation and listen to the recording online once it is posted later this week.

Today, we will cover the following topics:

- We will highlight the program milestones and accomplishments.
- We will review some housekeeping procedures regarding claims, refinancings, and the quarterly reports.
- We will cover existing program updates, and our three newest programs.

- We will continue our discussion with you about ensuring program sustainability by building in a recapture mechanism into our loan loss reserve programs.
- We will highlight some upcoming program outreach and marketing opportunities.
- Lastly, we have time for your comments and questions.

❖ PROGRAM MILESTONES AND ACCOMPLISHMENTS

The program statistics for the last couple of years show how successful the loan loss reserve program is to support and incentivize the availability of private capital to our small businesses in California. Collectively, you, as participating lenders, have taken good advantage of the CalCAP programs, and have enhanced the sustainability and growth in our business marketplace. Looking at the numbers for 2015:

- 50 lenders enrolled loans in our programs, including 11 new lenders who joined last year.
- Collectively you enrolled 4,951 loans totaling over $350 million.
- That represents a 42% increase in loan volume and amount loaned
- A total of $37 million in public funds were deposited into LLR accounts

For SSBCI, the U.S Treasury disbursed the last of $28 million allocated to CalCAP and Collateral Support. Of the SSBCI funding, we have expended $12.2 million towards the CalCAP for Small Business program and $56.5 million for collateral support. For ARB in 2015, we deposited $20.7 million in support of $193 million in loans, totaling $77.9 million supporting $695 million in loans of the life of the program in support of cleaner burning diesel trucks on California's highways.

In the last year, we have been asked to develop and implement three new CalCAP-based programs to support other state objectives. The establishment of these new loan loss reserve programs are a direct result of the success of the CalCAP for Small Business and the ARB Heavy-Duty Vehicle Loan Program. Because of your robust participation in those programs, other state agencies, legislators and economic development stakeholders view the loss reserve as an effective way for public funding to incentivize the private offering of capital to the business community, especially in support of important state policy goals, such as clean energy, air quality, accessibility and building safety.

Just to quickly review these new programs, we have the Electric Vehicle Charging Station Financing Program, which we are offering through an Interagency Agreement with the Energy Commission. We received a $2 million allocation that will support loan loss reserves for electric vehicle charging station equipment installation and acquisition. It includes up to a 30% CPCFA loan loss reserve contribution, and a borrower rebate of up to 50% of the contribution. In January 2016, AB 1230 became effective, and it appropriated $10 million to the new CalCAP/ ADA Financing Program, and it's a loan loss reserve program to finance tenant improvements for small businesses to comply with the Americans with Disabilities Act. Lastly, as part of the budget just signed by the Governor, SB 837 appropriated $10 million for a new CalCAP/ Seismic Safety Financing Program—also a loan loss reserve program—for building retrofits to ensure seismic safety, and that program will support both commercial and residential buildings. Now, I would like to introduce LeAndre Henry who will be discussing claims and refinances.

- **HOUSEKEEPING**

  - ***Claims***

    Good morning. Just as our loan enrollment volume has increased, so has our claims processing activity. In 2015, we processed 43 claims totaling $400,000 in our SSBCI program, and 65 claims totaling $2.7 million in our ARB program. Those numbers have already been surpassed just halfway through the year in 2016. During our December 2015 Lender Roundtable, we reviewed the claims process for our Loan Loss Reserve programs and highlighted a simple tool to calculate the interest eligible for reimbursement under our programs. Our lender manual was also updated to clarify the documentation that is necessary to substantiate the reasonableness of the claimed losses. We truly appreciate the many lenders who are using the tool and paying attention to substantiating the losses and out-of-pocket expenses, as it facilitates our analysis and approval of claim requests. The fewer inquiries we make back to you, the easier it is on our end to review and complete the request.

    Refinances

    In a site visit in March, officials from the U.S. Treasury clarified that the federal rules pertaining to eligible refinances included the requirement that, for Lender A to B refinances, the prior lender must be an eligible participating financial institution under the federal rules. That means that the prior loan cannot have been funded by either a finance lender or through private notes. As a result of that clarification, we have been working with a few lenders to see whether the requested refinance can be supported through our legacy state CalCAP funding. We appreciate your patience as we have been working through that adjustment to our loan enrollment process. We acknowledge that the rules around refinancing are somewhat confusing, and in fact our staff has had to consult with our legal counsel in order to interpret inconsistent language between the federal rules, our state statute and our regulations. Later on in the webinar we will be letting you know about upcoming opportunities for us to collaborate in making the rules clearer and easier to apply.

    Quarterly Reports

    Now, we will be covering quarterly reports. CalCAP requires all participating financial institutions to report to CPCFA on the status of loans enrolled on a quarterly basis. The quarterly reports are due to CalCAP no later than the 15th day of each month after the end of the quarter. Example: if the Quarter begins on January 1st and ends on March 31st, the Quarterly report is due to CalCAP on April 15th. The quarterly report should identify the CalCAP loan number, lender loan number, borrower's name and/or DBA, date of the loan (first disbursement), maturity date, total loan amount, and total amount outstanding. For loans in which a claim has been received, the report should also include the date of charge off, claim amount paid, recovery dates, recovery amounts, and any comments. The recovery amounts should be reported as the total recovery that was received after the claim was submitted. No deductions for out-of-pockets costs should be factored into this amount, as a new claim would need to be filed to receive reimbursement for the new out-of-pocket expenses. Recoveries should be reported on the quarterly report of which the recoveries were received.

On our website, you can find a quarterly reporting spreadsheet that we encourage you to use if you aren't using it already, as it contains all the required data fields.
These reports are intended to be ongoing reports. While the current quarter's loan enrollments must be submitted, please keep in mind that prior enrollments must be up-to-date and submitted on the most current report as well. The requirements for the quarterly reports can be found in the lender manual on our website. Failure to adhere to the time reporting requirements can result in lack of good standing for the financial institution. We ask that all quarterly reports be submitted electronically to the CalCAP email box at CalCAP@treasurer.ca.gov using the Microsoft Excel formatting. Again, an example of the preferred formatting style can be found on the CalCAP website at http://www.treasurer.ca.gov/cpcfa/calcap/sb/index.asp. Now I will pass it on to Doreen Smith for our program updates.

❖ CALCAP FOR SMALL BUSINESS AND COLLATERAL SUPPORT PROGRAM UPDATES

❖ *Federal Allocation Agreement Expiration and Recapture*

Good Morning. I'll provide you with an update regarding our SSBCI programs. As those of you participating in our SSBCI programs know, the allocation agreement with the U.S. Treasury expires on March 31, 2017. In order to continue administering the program, CalCAP will be proposing updates to its regulations to replace the guidelines provided by the allocation agreement. These updates to the regulations will include:

- Retaining the current eligibility criteria from the SSBCI guidelines
- Establishing recapture provisions for funding sustainability
- Clarifying administrative procedures for loan enrollments, amendments, claims, and reporting

The proposed regulations will be available for review and comment before being filed with the Office of Administrative Law and being adopted. The goal is to circulate draft regulations in Fall or Winter for input from a working group of lenders and to have the regulations be effective April 1, 2017. Please contact us via the CalCAP email if you would like to participate in this working group, or have any comments or questions. Now, I will pass it off to Bianca to discuss the ARB program.

❖ CALCAP/ARB HEAVY-DUTY VEHICLE AIR QUALITY LOAN PROGRAM UPDATES

❖ *Amended Interagency Agreement—New Funding*

As you know, based on the number provided to you in previous slides, the ARB Program is a heavily subscribed program, and we have seen an increase in loan enrollments especially as current owners of small fleets are rushing to upgrade their heavy-duty trucks to meet current emissions standards. As a matter of fact, in April 2016, we celebrated enrollment of 10,000 loans since program inception. According to ARB's representatives, "Emission reductions results, due to 10,000 cleaner trucks, is equivalent to taking more than 1 million cars off California roads every year. In addition, a cleaner fleet will reduce toxic diesel particulate matter emissions by about 54 tons per year." So thank you lenders for contributing to California's air quality. Given the popularity of this program, in June, ARB's Board approved a $22 million allocation for the fiscal year 2016-2017 for the ARB Program.

Some of you might have noticed that we slowed down the funding of loans in this program – and we acknowledge your concerns – this is due to the fact that new fiscal year funding appears to take longer than anticipated. Officially executed contracts and funding have to follow established procedures, and some agencies' approvals can take longer. If you have concerns about the enrollment of a particular loan, you can contact us prior to submission and discuss pre-qualification, so rest assured that we are doing our best to make the enrollment process as efficient as possible for all parties.

❖ ***Recapture***

The renewed interagency agreement also contains a recapture clause intended as a mechanism for program sustainability, and I quote: "To increase the longevity of the Program funds, CPCFA shall pursue regulation to establish procedures to recapture contribution funds from a lender's loss reserve account on an annual basis upon maturity of enrolled loans. These funds shall be returned to the Program Account to support future contributions for eligible loans and administrative costs. Recapture is not applicable for contributions on defaulted or charged off loans for which a claim has been approved, unless the amount recovered through the liquidation of the collateral exceeds the approved claim. All other terms of the loans enrolled in the CalCAP ARB program shall remain the same."

This recapture requirement included in our latest agreement with ARB will be implemented through the rulemaking process. Our plan is to present proposed regulations to implement recapture for this program to CPCFA's Board for approval, and submission to the Office of Administrative Law this Fall.

❖ **AUTOMATED ENROLLMENT SYSTEM**

We are currently working with the Treasurer's Information Technology department on a web based portal for automated enrollments of loans and submittal of claims. Additionally, the rebate submittal for the EVCS program will be automated. The intent is to simplify the loan enrollment on the lender's side as well as on our end. Currently, we are in the internal testing phase and expect to start a voluntary lender beta testing towards the end of August. We would really appreciate if some of our lenders would sign up to participate in this beta testing. If you are interested in helping us test the system and provide feedback, please contact us so that we can provide you with all the details needed for the testing process. This way, we are trying to prevent any glitches once the automated system is up and running. We anticipate having this automated submission system launched this Fall. We will keep you posted on the exact dates, and we will provide training webinars on the automated submission of loans. As usual, we are here to help.

❖ NEW PROGRAMS

❖ *CalCAP Electric Vehicle Charging Station Financing Program*

Hi, I am Jason L. Bradley, Program Manager at CPCFA. During this section of the presentation, my colleagues and I will highlight new program funding CPCFA was able to attract due to your participation in and the success of the CalCAP Program.

This first program is the Electric Vehicle Charging Station Financing Program. It is a $2 million Loan Loss Reserve Program funded by the California Energy Commission. The program provides both small businesses and lenders with incentives for the acquisition and installation of Electric Vehicle Charging Stations. The program incentivizes the lenders by eliminating the traditional CalCAP borrower and lender contribution, as all contributions to the Loan Loss Reserve account will come from program funds, and for those borrowers who make timely payments on their charging station loan, they will receive a rebate once the loan is paid off.

We currently have ten lenders who were early adopters to the program. I want to personally thank them for working closely with our staff on the program implementation. Though participation in the program has not been as robust as we hoped thus far, now is the time for you to get engaged and participate. Over the last several months, staff has made significant progress in collaborating with Southern California Edison and the Los Angeles Department of Water and Power. Both of these companies have established grant programs, and we see the EVCS Financing Program as a way to provide small businesses the upfront capital needed to participate in the program. In addition, we are forming relationships with cities and counties where residents have a higher propensity of purchasing electric vehicles. Local business associations have also shown interest in the program as well.

For more information or to sign up to be a participating lender, please visit the program's website. Here you will find more details about the program including the one-page lender application, contribution rates, and rebate information. We will also be updating the website with future speaking engagements and outreach activities, so visit the website often.

❖ *CalCAP/ ADA Financing Program*

Assembly Bill 1230 was signed by Governor Brown in October of 2015; it provided CPCFA a one-time $10 million appropriation to create the CalCAP/ ADA Financing Program. Loans can be enrolled in the program to support physical alterations, retrofits, and other improvements to increase access and comply with the Americans with Disabilities Act.

The program is aimed at California's smallest businesses. Therefore, to be eligible for the program a small business must have no more than 15 full time employees. The facility must be less than 10,000 square feet, and the business must have a total gross annual income of $1 million or less. In addition, the small business cannot provide overnight accommodation, so hotels and motels are not eligible for the program. The program institutes a $50,000 limit for each enrolled loan and offers coverage under the program for up to 5 years.

The CalCAP/ADA Financing Program introduces specific elements to CalCAP's existing programs such as CPCFA's contribution which is equal to four times the amount of the lender's contribution [which is between 2 -3.5%], the recapture provision [after 5 years], changes to the definition of small business, and technical requirements that the borrowers must meet such as the Certified Access Specialist (CASp) Report and the cost estimate for eligible projects. The specific elements were incorporated into the proposed Regulations, which are posted on our website.

We have collaborated with the California Commission on Disability Access, the Division of the State Architect, the Department of Rehabilitation, small business organizations, and other stakeholders to develop this Program. We have hosted two webinars to gather stakeholder input on program design and feasibility and four public workshops in July to provide information on the Program and seek input on our proposed regulations.

We plan on posting the notice of emergency regulations on our website on August 9th and bring the proposed regulations before our board for approval at the August 16th meeting. The day after the board meeting, we will then file the emergency regulations with OAL— short for Office of Administrative Law. OAL's approval process should take ten days. Once we have our emergency regulations in place, we will begin enrolling loans – this is expected to be by mid-September. Once again – all of the information regarding the program and the implementation process, including the proposed regulations, can be found on our webpage, so we encourage you to check our website regularly, and please send us any questions or concerns.

- ***CalCAP Seismic Safety Financing Program***

Good morning. I am Elena Miller, and I'll be leading the project to develop CalCAP's most recently added Seismic Safety Financing Program, which originated with legislation introduced by Assemblyman Nazarian (46^{th} District in the San Fernando Valley) out of concern for public health & safety, in addition to the rising costs of residential and commercial earthquake insurance policies. Nazarian's bill evolved into trailer bill language as Senate Bill 837 late in the legislative cycle, and was signed into law by Governor Brown on June 27, 2016.

The CalCAP/Seismic Safety program was appropriated $10 million. The new Statute (found at Section 44559.14 of the Health & Safety Code) requires a loan loss reserve account for each participating lender enrolling loans in this program. CalCAP/Seismic Safety loans will be limited to the "eligible costs" for an "eligible project", and cannot be for funding building expansions. A loan can be for up to $250,000 to finance eligible costs, which I'll get into on the next slide.

The CalCAP/Seismic Safety Financing Program is the first program for CalCAP that offers loan financing to residential property owners, and is particularly unique for including multiunit dwellings and mobile homes registered with the CA Department of Housing and Community Development *(these will be mobile homes that are secured to a foundation, and the financing will be limited to the installation of earthquake-resistant bracing systems.)*

Per the statute, loans to finance seismic retrofits to soft-story buildings and unreinforced brick and concrete buildings must be given a priority. Soft-story buildings are multi-story buildings in which one or more floors have windows, wide doors, large unobstructed commercial spaces, or other openings in places where a shear wall would normally be required for engineering building stability. For example, buildings with first-floor retail and residential multi-unit dwellings above.

For small business loans, the CalCAP/Seismic Safety program offers loan financing for buildings that may already be identified by local governments as the most critical buildings in need of seismic retrofits. For example, we've learned that in 2013, San Francisco mandated screening of soft-story buildings to determine if retrofitting is necessary, and is requiring retrofitting of buildings identified by 2020.

As we develop the program, we will be working with you -- the lenders— Assemblyman Nazarian's office, and local governments to learn more about any efforts to identify the soft-story and unreinforced brick and concrete buildings most in need of seismic retrofits, in addition to other State Agencies including the California Earthquake Authority and the California Department of Housing and Community Development. We are in the early stages of developing the program, and in the next couple of months will have draft regulations available for your comments.

The new law provides us with useful sign-posts to build the program, including defined terms that will inform how our regulations are drafted. For example, a "Qualified Project" will be eligible for a CalCAP/Seismic Safety loan if the building is certified by the local building code authority as hazardous and in danger of collapse in the event of a catastrophic earthquake.

This slide highlights for you that the new program will only offer loans for "seismic retrofit construction" performed on or after January 1, 2017. The statute defines "seismic retrofit construction" to include, but is not limited to:

- Anchoring the structure to the foundation
- Bracing cripple walls
- Bracing hot water heaters
- Installing automatic gas shutoff valves
- Repairing or reinforcing the foundation to improve the integrity of the foundation against seismic damage

- Anchoring fuel storage
- Installing an earthquake-resistant bracing system for mobile homes that are registered with the Department of Housing and Community Development

Note: the statute includes a list of costs that are ineligible—for example, repairs – including repair of existing earthquake damage and maintenance such as abatement of deferred or inadequate maintenance, and correction of building violations unrelated to the seismic safety retrofit construction.

In closing, I'd like to emphasize that this program is the first to offer financing to residential property owners. We invite your lender insight and encourage you to participate in the program's development, including the establishment of the contribution rates. Sign-up for the ListServ and visit our new page for the CalCAP/Seismic Safety Financing Program at: http://www.treasurer.ca.gov/cpcfa/calcap/seismic/summary.asp. Thank you. Now, Renee Webster-Hawkins will discuss the subject of Recapture.

- **RECAPTURE**

Thank you, Elena. I want to share with you now our ongoing discussion related to creating evergreen programs. A number of public policy, financial and administrative considerations have encouraged us at CalCAP to build in recapture mechanisms or other mechanisms to create long-term sustainable CalCAP programs. A number of those discussion points include your confidence and participation rates. We know that the longer and more durable the CalCAP program, the more likely it is that you will enroll loans in our program. Also, generally in government administration, there is a great push toward transparency and accountability in public funding, especially funding in support of private activities. Our funders for our programs have directed CPCFA to create evergreen programs. Examples of that include our Collateral Support Program, which was expressly designed with a recapture provision built in for each cash deposit. Additionally, the Air Resources Board (ARB), as a long time contributor to our Heavy-Duty Truck Loan Program, has directed us to build in a recapture provision. Those of you who have participated in the program for a number of years know that for the first few years, we received an allocation of $10 million each year. Last fiscal year, the initial allocation was $15 million, but when we began running short of funding mid-year, ARB quickly augmented that funding with an additional $3 million. We almost ran out of that money as well but for the reduction in our contribution rates, so the demand is increasing even while the money is increasing. This year, as we have reported, we will be receiving $22 million from ARB, but they have cautioned us that the increased amount of funding is not something that we can count on. Therefore, they have directed us to build a recapture provision because they know that there will be a need to create a steady support for retrofitting and purchasing cleaner burning diesel trucks for many decades to come.

Additionally, the legislative offers that have supported the one-time appropriations for the CalCAP/ ADA and CalCAP Seismic Safety programs have directed us to create long-term evergreen programs that will be able to fund loans well beyond the first generation of loans. Finally, as we close out our relationship with U.S. Treasury over the next few months, they have tasked the states to prepare a report to include description of the steps we are taking as a state to ensure the sustainability of the programs that were funded as a result of the Small Business Jobs Act. The next few slides are here for your reference to provide a chronology and resource for you if you are wanting to understand the evolution and development of the recapture process in CalCAP.

We first discussed the idea of recapture with you as a group in May 2015 when ARB directed us to explore the potential of recapture of funds for increased program sustainability. Then, we talked with many of you as a result of that discussion through the summer and fall of 2015 to talk about the contribution rates and a potential recapture mechanism. In October 2015, the Governor signed AB 1230 implementing the CalCAP ADA Program that included the recapture requirement. We have provided the citation for that for you here.

In April 2016, we hosted a lender webinar for you which described the recapture provision for the ADA Program, and in June 2016, we hosted a number of events describing the ADA program and the recapture mechanism including a state-wide stakeholder webinar as well as a presentation of the ADA Program to the CPCFA Board. Also, at the Board meeting in June, the Board approved an amendment to the ARB Interagency Agreement requiring recapture. At the end of June, the Governor signed the Budget Bill for the CalCAP Seismic Safety Program that also included the recapture provision. In July, our staff has been quite busy hosting statewide outreach both physically and via webinar to describe the CalCAP/ ADA Program as well as to solicit feedback regarding the proposed regulations for the Program which were posted on our website in July as well.

On August 16, 2016, the proposed regulations to implement the CalCAP/ ADA Financing Program will be presented to the CPCFA Board for submittal to the Office of Administrative Law. Prior to that, we plan on officially posting the notice of those regulations on August 9. In the fall of 2016, we're going to be drafting and proposing regulations for the ARB program as well as the Seismic Safety Program, which will include a recapture provision as directed by the statute and Interagency Agreement. Lastly, we will be drafting and proposing regulations for our CalCAP for Small Business Program and Collateral Support in the upcoming fall or winter. All of these events have been noted on our website as well as on our ListServ, and we have encouraged you throughout this presentation to sign up for the ListServ. That is the primary way we are informing you of the posting of draft regulations and outreach events via webinar or in person and posting other opportunities for participation in our programs, including the creation and development of our programs. Also, as a reference for you, here is some sample language from the proposed CalCAP/ ADA Regulations, which are on our website. If you have any comments or recommendations on this language, we welcome your written feedback to the CalCAP inbox through which we will be noticing our regulations officially next Tuesday and will be presenting them to the Board next Tuesday, so your written comments will be very timely. Lastly, I would like to introduce Janae Davis who will discuss outreach and participation opportunities.

- **PROGRAM OUTREACH**

  - ***Lender Survey***

    Good Morning. CPCFA has ramped up its outreach efforts to include hosting and participating in informational webinars, video productions highlighting CalCAP borrowers and lenders, statewide stakeholder meetings and calls to state and local chambers of commerce, associations and local governments. If there are groups that you feel would benefit from more information on CalCAP's programs, please let us know and we will reach out to them.

Next, I will provide a few updates on our upcoming outreach activities and expanded opportunities for lenders to participate in our newer programs. We have updated our Participating Financial Institution Application to include the new CalCAP/ ADA program in addition to the EVCS Program, and we encourage all lenders to submit an amended application to participate in these new programs.

We would also like to update our participating lender lists to include information on the languages spoken and the geographic regions served by our lenders. We plan to send a survey in the Fall to each participating lender to solicit this information.

- ***Publicity and Social Media Opportunities***

Through the State Treasurer's Office's Communications Shop and Independent Contributor programs, we continue to have opportunities to highlight how small businesses benefit from CalCAP for publicity and social media spots. We're often asked for photos or quotes from borrowers and their lenders about how participating in CalCAP made a difference. If you have borrowers or projects that you feel would be a great candidate, please let us know.

- ***Automated Enrollment System***

Following up on Bianca's exciting news about the development of our automated loan system, we plan to schedule lender trainings for all participating lenders on the automated loan enrollment system once the portal goes live.

In closing, we encourage you to visit the CPCFA webpage to sign up for our ListServ to receive regular announcements about proposed regulations and outreach events. We will now take your questions.