SSBCI 2.0

California's Deployment of the State Small Business Credit Initiative

IBank
California Infrastructure and Economic Development Bank

The American Rescue Plan Act of 2021 signed into law March 2021 included $10 billion for the reauthorization of SSBCI, which was initially created in 2010, to strengthen state programs that support financing of small businesses.

California State Treasurer's Office

- More than a dozen specialty programs within the State Treasurer's Office including low income housing tax credits, health facilities financing, tax-exempt debt allocation, school financing, educational facilities financing, retirement savings, ScholarShare savings and more

- One agency specializes in small business support financing:
  - California Pollution Control Financing Authority – CPCFA

IBank

California Infrastructure and
Economic Development Bank

Scott Wu

Executive Director

IBank

Shela Tobias-Daniel

Executive Director

CPCFA

CA SSBCI 1.0 Results

2011-2017

$168 million

TOTAL CALIFORNIA ALLOCATION

IBANK AND CPCFA SPLIT THE FUNDS EQUALLY FOR THE SMALL BUSINESS LOAN GUARANTEE PROGRAM AND THE CALIFORNIA CAPITAL ACCESS PROGRAM

Small Business Finance Center
CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK

CALIFORNIA CAPITAL ACCESS PROGRAM

92,533

TOTAL NUMBER OF CA JOBS CREATED OR RETAINED

$12,000

MEDIAN PRINCIPAL LOAN IN CA

SSBCI 1.0 Leverage Results

2011-2016

$8.95 to $1

U.S. LEVERAGE RATIO

SSBCI 2.0 guidelines are still pending -- expecting to see a 10-to-1 leverage requirement for 2.0 funds.

10,286

TOTAL NUMBER OF LOANS/INVESTMENTS

2011-2016

$7.52 to $1

CA LEVERAGE RATIO

How can SSBCI funds be used?

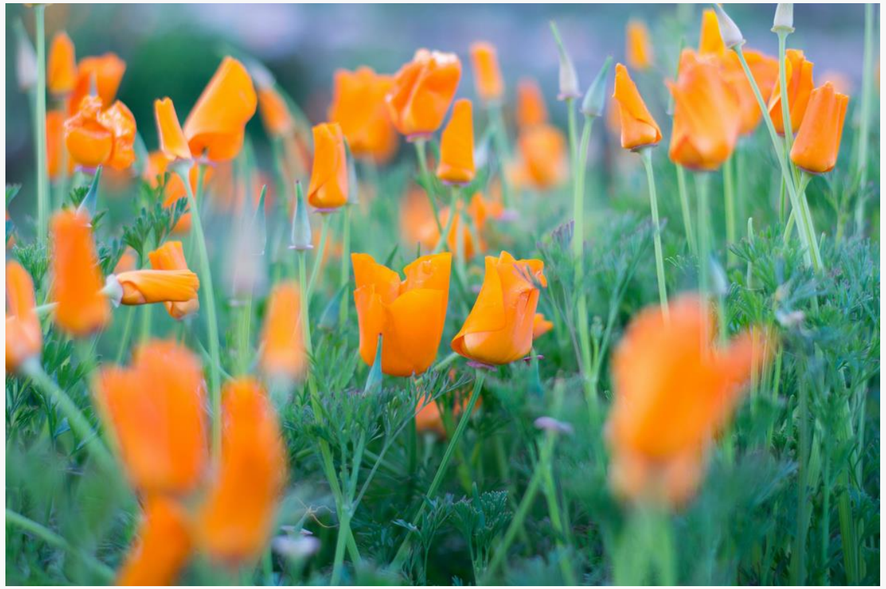
During SSBCI 2.0, Eligible Governments can use SSBCI funds to support the following types of small business financing programs:

- **Capital Access (CPCFA’s CalCAP)**
- **Collateral Support (CPCFA)**
- **Loan Guarantee (IBank)**
- **Loan Participation (under consideration)**
- **Venture Capital (under consideration)**

California allocation: $1.1 billion in three tranches

- Of the $10 billion SSBCI program: $6 billion to States, Territories, and Washington, DC allocated by formula
- $500 million to Tribal governments
- $1.5 billion for business enterprises owned and controlled by socially and economically disadvantaged individuals (SEDI businesses)

California allocation: $1.1 billion in three tranches



- $500 million for Very Small Businesses, defined as a business with fewer than 10 employees, including independent contractors and sole proprietors
- $1 billion in additional incentive allocations to Eligible Governments that demonstrate robust support for SEDI businesses
- $500 million to provide Technical Assistance to certain businesses applying for SSBCI or other government programs that support small businesses

SSBCI 2.0 Highlights:

- Three tranches: The allocation will come in 33%, 33% and 34% tranches. A minimum of 80 percent needs to be expended/transferred or obligated by the end of year three to trigger the next tranche (use it or lose it!)
- Passive real estate exception: a)100% of rentable property is leased to the passive company's affiliated operating companies that are actively involved in conducting business operations b) "Construction loans" up to $500,000 (with specific requirements)
- Refinancing of existing loans: A lender may enroll or refinance loans previously made by another, non-affiliated financial institution (under certain circumstances)

Potential CalCAP Changes

CalCAP changes to the regulations are being considered:

- **Send comments in ASAP to SSBCI@treasurer.ca.gov**
- **Loan Participation is under consideration**
- **10-1 leverage ratio is a driving force to proposed changes to ensure we meet U.S. Treasury's mandate**

Russ Smith

Executive Vice President/Chief Credit Officer

Pacific Enterprises Bank

Why use CalCAP vs. SBA 7a?

	CalCAP	SBA 7a
Secondary market premiums		√
Borrower fees similar		
Rate and fees limits	√	p+2.75%, no bank fees allowed
SBA maxed out	√[5]	
Bank standards[6]/SOP	√	
Ease of claim/demand	√	
Possible claim/demand denial	√ (highly unlikely)	real
Liquidation of Collateral prior to claim/demand	√ not required	varies, complicated
CalCAP/SBA fees expense	√ none	annual, audit
Prepayment penalties	√	all go to SBA
DDA required by bank	√	not allowed
Reserve compensating MMA balance	√	
No losses ever hit the ALLL	√	
Open Field?	√	saturated
Maximum loan enrollment term	10 years	√ up to 25 years
Impact of prepayment	√ positive	negative

The basic financial outline begins with contributions….

- There was a range from 1% to 3 ½% each from bank and borrower to enroll a loan, matched by CalCAP for a total of from 4% to 14%. The usual amounts were 2%, 2% and 4% for a total of 8%. Those amounts were almost exclusively used by us.
- Underwriting the production targeting a loss rate of 2% would, if successful, result in a final reserve that is 6% of total originations, applying a 2% claims factor.
- The maximum enrollment term is 10 years but that isn't necessarily the maximum loan term.
- The average life of loans produced for the following example is estimated at approximately 3 years. This figure might be managed to be considerably shorter, thereby building the firewall more quickly.

Assuming conditions similar to those following the Great Recession, after 9 years of production the numbers should look roughly like this assuming annual production of $20,000,000:

Total loans produced:	$180,000,000
Total contributions:	$ 14,400,000
Total outstanding 9th anniversary:	$ 44,800,000
Total outstanding 12th anniversary, say:	$ 12,000,000
Net claims to date:	$ 3,600,000
Reserve account balance 13th anniversary:	**$ 10,800,000**

If the bank were to now withdraw from the program it would notify CalCAP whereupon all remaining loans would be unenrolled and CalCAP would return half of the reserve to the bank ($5,400,000). The ALLL allocation on the remaining $12,000,000 would be, say 2%, $240,000, so the net dividend would be $5,160,000.

Looking back at the 13 years since enrolling in the program:

Average portfolio balance:	$45,000,000
Average NIM, say:	6%
Average annual NIM:	$ 2,700,000
Average annual NIM net of ALLL cost@2%:	$ 1,800,000
Average annual NIM+dividend:	$ 2,200,000
Average annual NIM+dividend/average loans:	5%
Loan losses:	**-0- !!!!!!**

Other special expense (we had no budget): -0-

This could be viewed at any point during the 4th through the 13th year and would still show a high yield/low risk situation. A $20,000,000 annual production figure is arbitrary but might be viewed as the production of a single BDO. The amplitude of these numbers is limited by only a bank's capacity to produce and the availability of contributions from CalCAP.

gener8tor

Troy Vosseler – gener8tor co-founder

- $800M+ in total follow-on financing
- 7,400+ jobs created
- 54% of gener8tor alumni have raised more than $1M in follow-on financing or have been acquired

Next steps:

- Guidelines have been released by U.S. Treasury
- Applications need to be started by Dec. 11, 2021
- IBank and CPCFA are prepping for the application, making updates/changes to existing programs and exploring new programs

QUESTIONS?

IBANK:

SSBCI@IBANK.CA.GOV

CPCFA:

SSBCI@TREASURER.CA.GOV