

TITLE 4. CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY

NOTICE OF PROPOSED RULEMAKING

Proposed Regulatory Action

The California Pollution Control Financing Authority (“CPCFA” or the “Authority”) proposes to amend Sections 8070, 8072, 8073 of Title 4 of the California Code of Regulations (the “Proposed Regulations”) concerning the administration of the California Pollution Control Financing Authority’s California Capital Access Loan Program (“CalCAP”) for Small Business Program (“CalCAP/SB”). These Proposed Regulations are necessary to ensure program clarity and continuity, and to refine and clarify program features of the California Pollution Control Financing Authority Act (the “Act”). The Proposed Regulations have been approved by the Office of Administrative Law (“OAL”) on an emergency basis, and this proposed rulemaking would make these changes permanent.

Authority and Reference

Authority: Sections, 44520 (a), 44520 (b) and 44559.5 (f), Health and Safety Code.

Reference: Sections 44559-44559.9, Health and Safety Code.

Informative Digest/Policy Statement Overview

Existing law establishes the Capital Access Program (“CalCAP”) and authorizes the Authority to contract with specified financial institutions to make loans to eligible small businesses that may have difficulty obtaining capital. (Health and Safety Code, § 44559)

The proposed amendment to the regulations will revise and update the definitions and remove the recapture mechanism to recycle contributions to support future loan enrollments in the CalCAP for Small Business Program.

The Authority has performed a search of existing regulations and has determined that the proposed regulations are not inconsistent or incompatible with existing state regulations.

§ 8070. Definitions.

This section defines terms commonly used throughout the regulations to avoid ambiguity or misunderstanding.

Section 8070 (w). Amends the term “Recapture”. This removal of the recapture requirement is for the Small Business Program only.

Necessity. The proposed amendments are necessary to include definitions specific to the implementation of the recapture mechanism for the Capital Access Program for Small Businesses, and to eliminate and refine existing definitions for clarity.

§ 8072. Loan Enrollment.

This section defines terms commonly used throughout the regulations to avoid ambiguity or misunderstanding.

Section 8072 (k). Removes requirement that loan enrollments submitted after August 15, 2017 be automatically subject to Recapture. This provision is no longer necessary because Federal funds will be used to support future loan enrollments.

Necessity. The proposed amendment is necessary to refine an existing definition specific to the Capital Access Program for Small Business.

§ 8073. Loss Reserve Accounts.

Section 8073 (d). Removes the Executive Director's authorization to withdraw contributions subject to recapture from Loss Reserve Accounts.

Section 8073 (g). Removes the full description of the recapture process and voluntary election process of the lenders to participated in this process.

Necessity. The proposed amendments are necessary to amend the recapture mechanism established in the Capital Access Program for Small Business.

Disclosure Regarding the Proposed Action

The Authority has made the following determinations regarding the effect of the Proposed Regulations:

Mandate on local agencies or school districts: None.

Cost or savings to any state agency: None.

Cost to any local agency or school district that must be reimbursed in accordance with Government Code sections 17500–17630: None.

Other non-discretionary cost or savings imposed on local agencies: None.

Cost or savings in federal funding to the state: None.

Significant effect on housing costs: None.

Cost impact on a representative private person or business: The Authority is not aware of any cost impacts that a representative private person or business would necessarily incur in reasonable compliance with the proposed action.

Small Business: The proposed regulations will not have an effect on small business because the program is voluntary for any small business that seeks to apply for financial assistance in any of the CalCAP Programs.

Significant, statewide, adverse economic impact directly affecting businesses including the ability of California businesses to compete with businesses in other states: The Authority has made an initial determination that the proposed regulations will not have a significant, statewide adverse economic impact directly affecting businesses, including the ability of California businesses to compete with businesses in other states.

Results of the Economic Impact Analysis

Assessment regarding effect on jobs/businesses: The proposed regulations will not have a significant effect on the creation or elimination of jobs in California, significantly affect the creation of new businesses or elimination of existing businesses within California, or significantly affect the expansion of businesses currently doing business in California.

Benefits of the regulation to the health and welfare of California residents, worker safety, and the state's environment: The broad objective of the regulations is to provide sustainable access to capital for small businesses that have difficulty obtaining financing.

Consideration of Alternatives

In accordance with Government Code Section 11346.5(a)(13) the Authority must determine that no reasonable alternative to the proposed regulations considered by the Authority or that has otherwise been identified and brought to the attention of the Authority would be more effective in carrying out the purpose for which the proposed regulations are proposed or would be as effective and less burdensome to affected private persons than the proposed action, or would be more cost-effective to affected private persons and equally effective in implementing the statutory policy or other provision of law.

The Authority invites interested parties to present statements with respect to alternatives to the Proposed Regulations during the written comment period.

Agency Contact Person

Written comments, inquiries, and any questions regarding the substance of the Proposed Regulations must be submitted or directed to:

Doreen Smith, Program Manager
California Pollution Control Financing Authority
P.O. Box 942809
Sacramento, CA 94209-0001
Telephone: (916) 653-3993
Fax: (916) 589-2805
Email: Doreen.Smith@treasurer.ca.gov

Kamika McGill, Associate Treasury Program Officer
California Pollution Control Financing Authority
P.O. Box 942809
Sacramento, CA 94209-0001
Telephone: (916) 653-9249
Fax: (916) 589-2805
Email: Kamika.McGill@treasurer.ca.gov

Written Comment Period

Any interested person, or his or her authorized representative, may submit written comments relevant to the Proposed Regulations to the Authority. The written comment period on the Proposed Regulations ends at **5:00 p.m. (PT) on May 22, 2023**. All comments must be submitted in writing to the Agency Contact Person identified in this Notice by that time and day in order to be considered by the Authority.

Availability of Initial Statement of Reasons And Text of Proposed Regulations

The Authority has established a rulemaking file for this regulatory action, which contains those items required by law. The file is available for inspection at the Authority's office at 801 Capitol Mall, Second Floor, Sacramento, California 95814, during normal business working hours. As of the date this Notice is published in the California Regulatory Notice Register, the rulemaking file consists of this Notice, the Initial Statement of Reasons and the proposed text of the Proposed Regulations. Copies of these items and all the information upon which the proposed rulemaking is based are available upon request from the Agency Contact Person designated in this Notice or at the Authority's website located at <http://www.treasurer.ca.gov/cpcfa/index.asp>.

Public Hearing

CPCFA does not intend to conduct a Public Hearing on the matter of these regulations, unless requested. Any interested person may submit a written request for a public hearing no later than 15 days prior to the close of the written comment period.

Availability of Changed or Modified Text

After the written comment period ends and following a public hearing, if any is requested pursuant to Section 11346.8 of the Government Code, the Authority may adopt the Proposed Regulations substantially as described in this Notice, without further notice. If the Authority makes modifications that are sufficiently related to the originally proposed text, it will make the modified text (with changes clearly indicated) available to the public for at least fifteen (15) calendar days before the Authority adopts the proposed regulations, as modified. Inquiries about and requests for copies of any changed or modified regulations should be addressed to the Agency Contact Person identified in this Notice. The Authority will accept written comments on the modified regulations for fifteen (15) calendar days after the date on which they are made available.

Availability of Final Statement of Reasons

Upon completion, a copy of the Final Statement of Reasons may be requested from the Agency Contact Person designated in this Notice or found on the Authority's website at <http://www.treasurer.ca.gov/cpcf/index.asp>.

PROPOSED TEXT OF REGULATIONS

Title 4. Business Regulations
Division 11. California Pollution Control Financing Authority
Article 7. Capital Access Program for Small Businesses

Text of Modified Regulations

Changes are illustrated with an underline for proposed additions,
and a strikethrough for proposed deletions.

§ 8070. Definitions.

In addition to the definitions in Section 8020, the following terms shall have the following definitions, unless the context requires otherwise:

- (a) "Borrower" means a Qualified Business which obtains a Qualified Loan from a Participating Financial Institution.
- (b) "CalCAP" means California Capital Access Program.
- (c) "Change in Terms" means any change in material terms of an enrolled loan, including changes to the name(s) of the borrower or co-borrowers, the total loan amount, the maturity date, or the interest rate.
- (d) "Contribution" means any or all eligible funds deposited by the Authority or Independent Contributor to a Loss Reserve Account.
- (e) "Executive Director" means the Executive Director of the California Pollution Control Financing Authority, or his or her designee from time to time.
- (f) "Fees" or "Fee" means a non-refundable fees or fee as set forth in Health and Safety Code Section 44559.4(c).
- (g) "Financial Institution" means an institution as set forth in Health and Safety Code Section 44559.1(d). 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 are subject to an audit requirement by its Federal or State regulated funding source.
- (h) "Independent Contributor" means any individual, company, corporation, institution, foundation, utility, government agency or other entity, including any consortium of these persons or entities, whether public or private (but excluding any Borrower), that, pursuant to the provisions of this Article, deposits Contributions to a Loss Reserve Account.
- (i) "Individual" means a natural person, together, if applicable, with any of his or her spouse, parents, siblings or children or the parents or spouse of any of them.
- (j) "Law" means Article 8 (commencing with Section 44559) of Chapter 1 of Division 27 of the California Health and Safety Code, as amended from time to time.

(k) "Loss Reserve Account" means an account held by a Program Trustee or by any Participating Financial Institution that is established and maintained by the Authority for the benefit of a Participating Financial Institution for the purposes set forth in Sections 8073, 8078.6, 8078.11, 8078.18, and 8078.25.

(l) "Money Market Fund" means an open-ended management investment company regulated under the Investment Company Act of 1940, as amended, which values its securities pursuant to Section 270.2a-7 of Title 17 of the Code of Federal Regulations.

(m) "Participating Financial Institution" means a Financial Institution that has been approved by the Authority to enroll Qualified Loans in the Program and has agreed to all terms and conditions set forth in the Law and this Article and as may be required by any applicable federal law providing matching funding.

(n) "Passive Real Estate Ownership" means ownership of real estate for the purpose of deriving income from speculation, trade or rental, but does not include any of the following:

(1) The ownership of that portion of real estate being used or intended to be used for the operation of the business of the owner of the real estate; or

(2) The ownership of real estate for the purpose of construction or renovation, until the completion of the construction or renovation phase.

For purposes of clause (1) above, the Borrower must be using or planning to use upon acquisition or construction of a building, at least 51 percent of the space in an existing building or at least 67 percent of the space in a newly constructed building. The requirements of clause (1) above will be deemed to be satisfied when a Participating Financial Institution makes a Qualified Loan to an Individual, or to a partnership or trust wholly owned or controlled by one or more Individuals, for the purpose of financing property that will be leased to a Qualified Business that is wholly owned by those same Individuals, and in such case the Qualified Loan will be deemed to be made also to such Qualified Business.

(o) "Primary business location in California" means that a business will be deemed to be located in California if either:

(1) a majority of the employees of the business are located in California; or

(2) the Executive Director determines that the Primary business location is in California by finding that the average of the "Payroll Factor" as defined in Revenue and Taxation Code Section 25132, the "Income Factor" as defined in Revenue and Taxation Code Section 25128, and the "Sales Factor" as defined in Revenue and Taxation Code Section 25134 is greater than 50 percent.

(p) "Outstanding Principal Balance" means the amount due and owing to satisfy the payoff of the underlying loan, less interest and other charges.

(q) "Primary economic effect in California" means, as applied to a business activity, that either of the following conditions exists:

(1) At least 51 percent of the total revenues of the business activity are generated in California; or

(2) At least 51 percent of the total jobs of the business activity are created or retained in California.

(r) "Program" means the Capital Access Loan Program for Small Businesses established pursuant to the Law.

(s) "Program Trustee" means a bank or trust company, or the State Treasurer, chosen by the Authority from time to time to hold or administer some or all of the Loss Reserve Accounts.

(t) "Qualified Business" and "Small Business Concern" means a business as set forth in Health and Safety Code Section 44559.1 subdivisions (i) and (m), that is not dominant in its field of operation, and that together with affiliates, has 500 or fewer employees.

(u) "Qualified Loan" means a loan or a portion of a loan made by a Participating Financial Institution to a Qualified Business for any business activity that has its Primary economic effect in California. A Qualified Loan may be made in the form of a line of credit, in which case the Participating Financial Institution shall specify the amount of the line of credit to be covered under the Program, which may be equal to the maximum commitment under the line of credit or an amount that is less than the maximum commitment. "Qualified Loan" does not include any of the following:

(1) A loan for the construction or purchase of residential housing.

(2) A loan to finance Passive Real Estate Ownership.

(3) A loan for the Refinancing of an existing loan when and to the extent that the outstanding balance is not increased.

(4) A loan, the proceeds of which will be used

(A) For any of the following businesses, facilities, or purposes regardless of the source of funds used for the Authority's Contribution:

(i) massage parlor, sauna or hot tub facility, racetrack, facility primarily used for gambling or to facilitate gambling, liquor store, bar, a store or other facility whose principal business is the sale of firearms, a store or other facility whose principal business is the manufacture or sale of tobacco or tobacco products, a store or other facility whose principal business is religious, escort service, nudist camp, adult entertainment (including strip clubs, adult book stores, and businesses whose principal business is the sale of pornography), gun club, or shooting range or gallery.

(ii) a business engaged in speculative activities that develop profits from fluctuations in price rather than through the normal course of trade, such as wildcatting for oil and dealing in commodities futures, unless those activities are incidental to the regular activities of the business and part of legitimate risk management strategies to guard against price fluctuations related to the regular activities of the business;

(iii) a business that earns more than half of its annual net revenue from lending activities, unless the business is a non-bank or non-bank holding company certified as a Community Development Financial Institution;

(iv) a business engaged in pyramid sales plans, where a participant's primary incentive is based on the sales made by an ever-increasing number of participants;

(v) a business engaged in activities that are prohibited by federal law or applicable law in the jurisdiction where the business is located or conducted. Included in these activities is the production, servicing, or distribution of otherwise legal products that are to be used in connection with an illegal activity, such as selling drug paraphernalia or operating a motel that permits illegal prostitution on its premises;

(vi) businesses that may be restricted by federal law;

(vii) activities that relate to acquiring or holding passive investments such as commercial real estate ownership, the purchase of securities, and lobbying activities as defined in Section 3(7) of the Lobbying Disclosure Act of 1995. P.L. 104-65, as amended;

(viii) financing a non-business purpose;

(ix) covering the unguaranteed portions of an Small Business Administration loan unless the Authority receives prior written consent of the U.S. Treasury; or

(x) supporting existing extension of credit, including prior loans, lines of credit or other borrowings that were previously made available as part of a substantially similar governmental small business credit enhancement program.

(B) to provide any of the following facilities when the Authority's Contributions will be paid for with fees from the issuance of tax-exempt bond sales, all items listed in (A) and: a store whose principal business is the sale of alcoholic beverages for consumption off premises, private or commercial golf course, country club, spas that provide massage services, tennis club, skating facility (including rollerskating, skateboard, and ice skating), racquet sports facility (including any handball or racquetball court), suntan facility, airplane, aircraft, skybox (or other private luxury box), health club facility.

(C) in any manner that could cause the interest on any bonds previously issued by the Authority to become subject to federal income tax, as specified in writing to all Participating Financial Institutions by the Executive Director.

(5) any loan or portion thereof to the extent the same loan or portion thereof has been, is being, or will be enrolled in any other government program substantially similar to the Program.

(6) any loan that exceeds \$5,000,000.

(7) any loan or portion thereof to the extent that enrollment of the loan will cause the Borrower (including all related entities among which a common enterprise exists) to have a total enrolled principal amount in excess of \$2,500,000 at any Participating Financial Institution over a three-year period.

(v) "Quarterly Report" means the mandatory report on the status of loans enrolled submitted to the Authority by each Participating Financial Institution on a quarterly basis, no later than the 15th of the month following the end of each quarter.

(w) "Recapture" means the withdrawal of the Authority's Contributions pursuant to each program's rules set forth in Sections 8078.11, 8073, 8078.18, and 8078.25.

(x) "Refinance" means the revision or restructure of an existing debt obligation with or without a new debt obligation with different terms and conditions, including an increase to the outstanding principal balance, an extended maturity date or term, or permitting another borrower to assume the loan.

(y) "Severely Affected Community" means any area, as designated by the Executive Director, contiguous to the boundaries of a military base designated for closure pursuant to Public Law 101-150, as amended; and any other comparable economically distressed geographic area so designated by the Executive Director from time to time.

(z) "Small Business Assistance Fund" means a fund of that name created by the Authority.

(aa) "Standards" means the criteria to be used by an Independent Contributor in assisting businesses through the Program.

(bb) "TRAC Lease" means "Terminal Rental Adjustment Clause" as defined in Section 7701(h)(3) of Title 26 of the United States Code.

Note: Authority cited: Sections 44520 and 44559.5(f), Division 27, Health and Safety Code. Reference: Sections 44559.1, 44559.2, 44559.3, 44559.4, 44559.5, 44559.7, 44559.9 and 44559.12, Division 27, Health and Safety Code.

§ 8072. Loan Enrollment.

(a) The terms and conditions of Qualified Loans, including interest rates, fees and other conditions, shall be determined solely by agreement of the Participating Financial Institution and the Borrower.

(b) A Participating Financial Institution shall be authorized to enroll under the Program all or a part of any Qualified Loan:

(1) by notifying the Authority in writing, within 15 business days after the Qualified Loan is made, that it is enrolling a Qualified Loan. For purposes of this section, the date on which the Participating Financial Institution makes a Qualified Loan is the date on which the Participating Financial Institution first disburses proceeds of the Qualified Loan to the Borrower; and

(2) by transmitting to the Authority the Fees collected from the Participating Financial Institution and the Borrower, or the Contribution from an Independent Contributor on behalf of the Borrower and/or the Authority, in connection with the Qualified Loan, and by providing written evidence that the Fees or Contributions have been deposited in a Loss Reserve Account held by either the Participating Financial Institution or the Program Trustee.

(c) The notification to the Authority shall include at least the following information:

(1) Borrower name, which includes the Borrower's legal name and the name by which the Borrower does business, if any, and the business address.

(2) Brief description of the Borrower's business and regular activities, Census Tract Number associated to the Borrower's business address, and the location of the facilities being financed if different, either the SIC Code(s) or the NAICS Code(s) applicable to Borrower's business, and the amount of its annual revenues.

(3) Whether this business has been open for two years or more, and is owned by one of the following: a woman, minority, or veteran.

(4) Brief summary of the intended use of the proceeds of the Qualified Loan.

(5) Amount of the Qualified Loan being enrolled (and indication if less than the full amount of the Qualified Loan is being enrolled) and the Participating Financial Institution loan number.

(6) Type of the Qualified Loan (e.g., line of credit, term loan, TRAC Lease).

- (7) Date of the Qualified Loan, based on the first disbursement of proceeds to the Borrower.
- (8) Interest rate applicable to the Qualified Loan.
- (9) Term or maturity date of the Qualified Loan.
- (10) Geographic location of the Qualified Business and the location of the facilities being financed if different.
- (11) Whether the Qualified Business or the location of the facilities being financed is in a Severely Affected Community.
- (12) Whether the loan is secured.
- (13) Whether the loan is a Refinance, and if so, the name of the prior lender if different than the Participating Financial Institution, whether the prior loan was enrolled under the Program or any other government lending program, and whether the amount of the loan was increased as part of the Refinance.
- (14) Agreed amount of the Fees payable by each of the Borrower and the Participating Financial Institution.
- (15) Whether any portion of the Fees payable by the Borrower or the Contribution was or is to be paid by an Independent Contributor; the identity of such Independent Contributor; and a certification that the Independent Contributor has approved the use of its funds to pay such Fees or Contribution in connection with the Qualified Loan.
- (16) Number of persons currently employed by the Borrower, and number of jobs expected to be created, retained or affected by the Qualified Loan.
- (17) Certification by the Participating Financial Institution that:
 - (A) The loan is a Qualified Loan, and that the business receiving the Qualified Loan is a Qualified Business.
 - (B) The Qualified Loan is for a business activity that has its Primary economic effect in California.
 - (C) Upon request of the Executive Director, the Participating Financial Institution will provide information from the financial records of the Borrower, including documents validating the Borrower's establishment of a business entity, and that the Participating Financial Institution has obtained the consent of the Borrower to such disclosure.
 - (D) The Participating Financial Institution has obtained a written representation from the Borrower that it has no legal, beneficial or equitable interest in the Fees or the Contribution.
 - (E) The enrolled amount of the loan does not exceed \$2,500,000.
 - (F) The Participating Financial Institution has notified the Borrower if the Participating Financial Institution's share of the Fees for the Qualified Loan have been paid by the Borrower.
 - (G) The lending activities of the Participating Financial Institution are subject to any applicable safety and soundness standards as set forth in applicable federal banking regulations.
 - (H) The Participating Financial Institution has validated that the Borrower has secured or made

application for all applicable licenses or permits needed to conduct business.

(I) The Participating Financial Institution has not, and will not, enroll any portion of the same loan in any other government program substantially similar to the Program.

(J) The Qualified Loan is not a Refinance of a loan previously made to the Borrower to the extent that the outstanding balance is not increased.

(K) The Participating Financial Institution has provided the Borrower the Authority's Privacy Notice for the CalCAP for Small Business Loan Program, which provides the notice required under the California Information Practices Act (Civil Code section 1798.17). The Privacy Notice informs the Borrower that personal information protected by the California Information Practices Act may be disclosed under the following circumstances:

- (i) To consultants, auditors or contractors retained by the Authority where disclosure is required to fulfill Program requirements and subject to a nondisclosure agreement;
- (ii) To another governmental entity where required by state or federal law; or
- (iii) As otherwise required by law.

(L) The Participating Financial Institution will make available to the Authority all records related to the use of the funds in the Loss Reserve Account.

The Participating Financial Institution shall be authorized to rely on representations made to the Participating Financial Institution by the Borrower for the information requested in subdivisions (c)(4), (c)(16), (c)(17)(A), (c)(17)(B) and (c)(17)(D); provided that no such Borrower representation may be relied upon if it is known to be false by the lending officer(s) at the Participating Financial Institution who are directly involved in the negotiation of the Qualified Loan. All other certifications shall be based upon the Participating Financial Institution's established due diligence and underwriting standards applied in the regular course of business, and the Participating Financial Institution shall maintain substantiating documentation in the Borrower's loan file.

(18) The Participating Financial Institution must obtain written certification from the Borrower that:

- (A) The loan will be used solely for a business purpose;
- (B) The loan will not be used to repay delinquent federal or state income taxes unless the Borrower has a payment plan in place with the relevant taxing authority;
- (C) The loan will not be used to repay taxes held in trust or escrow;
- (D) The loan will not be used to refinance or reimburse funds owed to any owner, including any equity injection or injection of capital for the business' continuance;
- (E) The loan will not be used to purchase any portion of the ownership interest of any owner of the business;
- (F) The loan will not be used to finance ineligible businesses or facilities identified in Section 8070;
- (G) The Borrower is not:
 - (i) an executive officer, director, or principal shareholder of the Participating Financial Institution;
 - (ii) a member of the immediate family of an executive officer, director, or principal shareholder of the

Participating Financial Institution; or

(iii) a related interest of such executive officer, director, principal shareholder, or member of the immediate family of the Participating Financial Institution.

(d) If a Borrower seeking a loan from a Participating Financial Institution has less than a majority of its employees in California, the Participating Financial Institution shall be authorized to submit information to, and seek a determination from, the Executive Director that such Borrower has its Primary business location in California. Such determination shall be made by the Executive Director within 10 days of receipt of a written request from a Participating Financial Institution containing information about the business activities of the proposed Borrower.

(e) If a Borrower seeking a Qualified Loan from a Participating Financial Institution is an employee, member, director, officer, principle shareholder, or affiliate of the Participating Financial Institution, the terms and the conditions of the Qualified Loan and the internal procedures used to approve the Qualified Loan must comply with the following requirements:

(1) If the Participating Financial Institution is a federal-chartered bank, the Qualified Loan must be made in accordance with all applicable federal banking laws that regulate conflicts of interests and insider transactions and Sections 371c, 371c-1, 375a, and 375b of the Title 12 of the United States Code, and Sections 215.4 of Title 12 of the Code of Federal Regulations.

(2) If the Participating Financial Institution is a state-chartered bank, the Qualified Loan must be made in accordance with all applicable state banking laws that regulate conflicts of interests and insider transactions and Section 3370 et seq. of the Financial Code, and Sections 10.19300 to 10.19302 of Title 10 of the California Code of Regulations.

(3) If the Participating Financial Institution is a federal-chartered savings association, the Qualified Loan must be made in accordance with all applicable federal banking laws that regulate conflicts of interests and insider transactions and Section 1468 of Title 12 of the United States Code.

(4) If the Participating Financial Institution is a state-chartered savings association, the Qualified Loan must be made in accordance with all applicable state banking laws that regulate conflicts of interests and insider transactions and Sections 6503 and 6529 of the Financial Code.

(5) If the Participating Financial Institution is a federal-chartered credit union, the Qualified Loan must be made in accordance with all applicable federal banking laws that regulate conflicts of interests and insider transactions and Sections 1757 and 1761c of Title 12 of the United States Code and Section 701.21(d) of Title 12 of the Code of Federal Regulations.

(6) If the Participating Financial Institution is a state-chartered credit union, the Qualified Loan must be made in accordance with all applicable state banking laws that regulate conflicts of interests and insider transactions and Section 15050 of the Financial Code.

(7) If the Participating Financial Institution is a not-for-profit certified community development financial institution (CDFI), the Qualified Loan must be made in accordance with all applicable federal banking laws that regulate conflicts of interests and insider transactions and Sections 1805.807 of Title 12 of the Code of Federal Regulations.

(8) If the Participating Financial Institution is a lending institution as described in Section 44559.1(d)(2) of the Health and Safety Code, the Qualified Loan must be made in accordance with any applicable federal laws that regulate conflicts of interests and insider transactions and Section 120.140 of Title 13 of the Code of Federal Regulations.

(f) The Participating Financial Institution may pre-qualify with the Authority any qualified loan. Pre-qualifications do not necessarily guarantee that funds for Contributions will be available at the time of final enrollment, unless the funding source requires it. Pre-qualifications shall be valid for six (6) months.

(g) The Authority shall, upon receipt of documentation and Fees from the Participating Financial Institution, enroll the Qualified Loan if the Executive Director determines that the Qualified Loan meets the requirements of the Law and this Article. The Executive Director shall notify the Participating Financial Institution of enrollment within 15 business days after receipt by the Authority of all documentation and Fees required by the Law and/or this Article. The Executive Director's determination whether a loan shall be enrolled in the Program shall be final. The Executive Director shall be authorized to review an application for enrollment submitted by a Participating Financial Institution in advance of the making of the loan, and notify the institution whether such loan meets the requirements of the Law and this Article.

(h) Upon enrollment of a Qualified Loan, the Contribution shall be transferred for deposit in the Loss Reserve Account (1) by the Authority or (2) by an Independent Contributor, and the Program Trustee shall notify the Participating Financial Institution of the transfer and of the source of funds from which the transfer was made.

(i) The Participating Financial Institution must notify the Authority whenever the material terms of an enrolled loan change prior to maturity, including TRAC Leases assumptions, by submitting a Change in Terms notification within fifteen (15) business days after such change.

(1) If any of the terms other than the interest rate have changed, then the Participating Financial Institution shall also submit an amended loan enrollment application including new lender and borrower certifications, for the loan.

(2) The Participating Financial Institution shall deposit Fees pursuant to Section 8072 for any increase to the total loan amount.

(3) If the Authority determines that the information contained in the Change in Terms constitutes an ineligible Refinance, or not a Qualified Loan as defined in Section 8070, neither the original nor the revised loan will continue to be enrolled in the Program.

(4) Notwithstanding the ineligibility of a Refinance when the outstanding balance is not increased under Section 8070(u)(3), the Authority may authorize an extension of the maturity date of an enrolled loan for up to eighteen (18) months, if the Participating Financial Institution has provided the Authority written certification to its credit policy that provides for such extensions of the maturity date. Such authorization is contingent upon the submittal of the Change in Terms notification, an amended loan enrollment application, and new lender and borrower certifications for the loan.

(j) Without regard to the terms of the loan, the term of enrollment in the Program shall not exceed ten years.

~~(k) Loan enrollments submitted on or after August 15, 2017 will be subject to Recapture as specified in Section 8073.~~

Note: Authority cited: Sections 44520 and 44559.5, Health and Safety Code. Reference: Sections 44559.2, 44559.4 and 44559.12, Health and Safety Code; and Section 1798.17, Civil Code.

§ 8073. Loss Reserve Accounts.

(a) Upon the Executive Director's acceptance of an application under Section 8071, the Authority shall establish a Loss Reserve Account for that Participating Financial Institution for the following purposes:

- (1) to receive all Fees deposited by the Participating Financial Institution, Borrowers and/or Independent Contributors;
- (2) to receive Contributions deposited by the Authority and/or Independent Contributors; and
- (3) to pay claims in accordance with Section 8074.

(b) The Loss Reserve Account shall, in the Authority's sole determination, be held by the Participating Financial Institution or by the Program Trustee. For each Loss Reserve Account held by a Participating Financial Institution, the Participation Financial Institution shall submit to the Authority a monthly statement of the account activities and balance, no later than the 15th of the following month.

(c) Any Loss Reserve Account held in a Participating Financial Institution shall be an interest-bearing demand account or deposit account at a banking institution, or a Money Market Fund if approved in writing by the Executive Director, or a combination thereof, and earning a rate of interest that would be expected of accounts of similar type and size. The Loss Reserve Account shall be insured by the Federal Deposit Insurance Corporation, the National Credit Union Share Insurance Fund, or the Securities Investor Protection Corporation, as appropriate, to the extent permitted by law. The Authority shall not deposit any Loss Reserve Account with a Participating Financial Institution if:

- (1) there are any charges by the Participating Financial Institution for the establishment or maintenance of the Loss Reserve Account at such Financial Institution; or
- (2) at the time the Loss Reserve Account is established with the Participating Financial Institution, it has a rating below "75" from IDC Financial Publishing Inc.'s Bank Financial Quarterly, S&L-Savings Bank Financial Quarterly, or Credit Union Financial Profiles; or it has a rating of "C" or below from LACE Financial Corp; or it has a rating below "11" from Highline Inc.'s Bank Quarterly or S&L Quarterly or successor publication approved by the Executive Director.
- (3) the Participating Financial Institution has not timely submitted its Quarterly Report described in Section 8073, and, for accounts held at the Participating Financial Institution, the monthly statements described in Section 8078.

(d) All moneys in a Loss Reserve Account are property of the Authority (subject to the Participating Financial Institution's right to receive a portion of the remaining balance in the Loss Reserve Account upon its withdrawal from the Program pursuant to Section 8076 and subject to subsection (e) below). Interest or income earned on moneys credited to the Loss Reserve Account shall be deemed to be part of the Loss Reserve Account. The Executive Director shall be authorized to withdraw from the loss reserve all interest and income that has been credited to the Loss Reserve Account as set forth in Health and Safety Code Section 44559.3(d), ~~and any Contributions subject to Recapture as provided in Section 8073~~. The Executive Director shall be authorized to return to a Participating Financial Institution any Fees improperly deposited in a Loss Reserve Account. No Participating Financial Institution holding its Loss Reserve Account shall make any withdrawal from the account without written instruction from

the Authority.

(e) Notwithstanding any other provision of this article, the Executive Director shall be authorized, with the approval of the applicable Participating Financial Institution, to assign, transfer, pledge or create security interests in all or a portion of any Loss Reserve Account to any other entity or entities (including a trustee of a securitization trust or trusts) in connection with the securitization of all or a portion of the Participating Financial Institution's loans enrolled in the Program. Any loan enrolled in the program or portion thereof which is subsequently assigned, transferred, pledged or securitized without the advance written approval of the Executive Director shall no longer be deemed a Qualified Loan or covered by the Loss Reserve Account. If a Participating Financial Institution desires to assign, transfer, pledge or securitize all or a portion of any enrolled loan or Loss Reserve Account, it shall submit a written request to the Authority no less than thirty (30) calendar days in advance of such action, together with the list of loans and the amount of the Loss Reserve Account subject to the request, and a draft of the legal document specifying the assignment, transfer, pledge or securitization.

(f) The Participating Financial Institution shall provide information to the Authority regarding the status of accounts, enrolled loans, claims and recoveries upon request, including timely Quarterly Reports of the data regarding: Outstanding Principal Balance of all enrolled loans; all loans in default and charged off, and claim amounts; and deposits made to replenish the Loss Reserve Account pursuant to Section 8074, in the form provided by the Authority. Failure to submit timely and complete Quarterly Reports will result in the suspension of any pending loan enrollments or claim applications from that Participating Financial Institution, and transfer of any Loss Reserve Accounts held by the Participating Financial Institution to the Program Trustee.

~~(g) The Executive Director is authorized to Recapture from each Loss Reserve Account the Authority's Contribution for each enrolled loan when the corresponding Qualified Loan matures or upon five years from the date of enrollment, whichever occurs first, and subject to each of the following conditions:~~

~~(1) Recapture shall be conducted on an annual basis following the end of each fiscal year based on the data reported in the Quarterly Reports submitted for the term ending June 30th.~~

~~(2) Recapture is not applicable for Contributions for Qualified Loans that are charged off as a result of a default, and have a pending or approved claim with the Authority, and are reported as such on the Quarterly Report.~~

~~(3) The Executive Director shall limit the amount of the annual Recapture of Contributions from each Loss Reserve Account if necessary to ensure that the balance remaining in that Loss Reserve Account immediately following Recapture is greater than a minimum threshold set as a percentage of the Outstanding Principal Balance of loans enrolled in the 60 months prior to each annual Recapture. Beginning in 2020, the minimum threshold shall be fifteen percent (15%).~~

~~(4) Recapture shall apply to each new Loss Reserve Account established on or after August 15, 2017.~~

~~(5) For Loss Reserve Accounts established before August 15, 2017, each Participating Financial Institution shall affirm in writing its election to continue enrolling loans in the Program subject to Recapture applicable to Contributions for all past and future Qualified Loans. This election may not later be withdrawn by the Participating Financial Institution. Loans enrolled on or after August 15, 2017 will be deemed ineligible if the Participating Financial Institution has not first submitted its election in writing. For any Participating Financial Institution that submits its election in writing after August 15, 2017, the Authority shall thereupon conduct Recapture for its Loss Reserve Account according to this subsection (g).~~

~~and the Participating Financial Institution may thereupon submit new loan enrollments on or after the date of its written election. Nevertheless, Qualified Loans enrolled before August 15, 2017 will be supported by the Loss Reserve Account and the Participating Financial Institution will be eligible for claim reimbursement pursuant to Section 8074 for the previously enrolled Qualified Loans until maturity.~~

(6) The Authority shall deposit all Recaptured funds in the CalCAP for Small Business Loan Program Fund dedicated solely for future program and administrative expenditures of the CalCAP for Small Business Loan Program. The Authority may set aside up to 7 percent of all Recaptured funds for reasonable direct and indirect administrative costs of the Program.

(h)(g) The Authority may suspend enrollment of Qualified Loans upon written notice to the Participating Financial Institution at least ten (10) business days prior to the effective date of the suspension. Causes for suspension shall be for violations of applicable statutes or regulations. If the violations are not corrected within thirty (30) business days from the effective date of the suspension the Executive Director is authorized to terminate participation of a Participating Financial Institution in the Program. In the event of such termination, the Participating Financial Institution shall not be authorized to enroll any further Qualified Loans.

Note: Authority cited: Sections 44520 and 44559.5, Health and Safety Code. Reference: Sections 44559.3 and 44559.8, Health and Safety Code.