REQUEST FOR WRITTEN COMMENTS AND PRESENTATION PROPOSALS

CALIFORNIA CAPITAL ACCESS LOAN PROGRAM
STAKEHOLDER SYMPOSIUM

WHAT:	The California Pollution Control Financing Authority (CPCFA) is soliciting **written comments** and **presentation proposals** to address key features of the California Capital Access Program (CalCAP) programs that can be improved to ensure wider participation by lenders and borrowers, and increase the longevity of the programs.	
WHERE:	CalCAP Stakeholder Symposium State Personnel Board Building 801 Capitol Mall, Hearing Room 150 Sacramento, California 95814	
WHEN:	Wednesday, April 26, 2017 10:00 a.m. - 1:00 p.m.	
SYMPOSIUM REGISTRATION:	In person: Webinar:	**calcap@treasurer.ca.gov** https://attendee.gotowebinar.com/register/327966008471035393
DUE DATES:	Presentation Proposals: Written Comments:	April 13, 2017 at 5:00 p.m. May 3, 2017 at 5:00 p.m.

OBJECTIVE

The two primary CalCAP programs – one for small business and the other for small fleet owner/operators of heavy duty vehicles – are nearing the end of their program funding and CPCFA is being urged by the funders to ensure the sustainability and broad availability of the programs to small businesses throughout California.

To that end, CPCFA seeks input from small business representatives, non-profit and for-profit lenders and other stakeholders committed to the vitality and growth of the small business sector in California. Specific concepts that CPCFA seeks input on are:

A. A framework to implement the **recapture of funds** from existing loss reserve accounts to support ongoing program contributions and administrative costs.
B. An option for a lender to elect to **pool fees and contributions** from all CalCAP programs into a single loss reserve account, unless a funding source expressly prohibits it.
C. **Increasing the initial state contribution for new lenders**, to accelerate the initial build-up of a loss reserve account and incentivize new lender participation into the CalCAP programs.
D. The **establishment of a reservation system**, to facilitate a lender's assurance of the availability of program funding.
E. How to build in incentives for lenders to **maintain default rates at or below the national average** for small business lending.

CPCFA has been discussing the concept of recapture and other program improvements with lenders since mid-2015. Two new CalCAP programs added in 2016 include recapture as legislative direction. Written input from stakeholders throughout this time has been collected as part of the record of informal public comment in anticipation of rulemaking proceedings later this year for the two primary CalCAP programs.

The Symposium is an important next step of CPCFA's informal comment period. In the Save the Date Notice posted on March 20, 2017, staff outlined five major program possibilities and elaborates on them below, to solicit recommendations from stakeholders including data or other concrete rationale, upon which objective agency decisions can be based.

PROGRAM OPPORTUNITES

A. Recapture Program Contributions

The **California Capital Access Program for Small Business** (CalCAP/SB) was established by legislation in 1994, and assists small businesses in obtaining loans through participating financial institutions (or lenders). CalCAP generally is a credit enhancement for lenders which can provide up to 100% coverage on certain loan defaults. Each lender is entirely liable for its loan losses; however, those losses can be reimbursed from each lender's loan loss reserve account. The loss reserve accounts are built through fees deposited by the borrower and lender, and matching contributions from CPCFA.

Prior to 2010, CalCAP/SB was funded from the CPCFA's Small Business Assistance Fund (SBAF) established by fees collected through the authority's conduit bond issuances. In October 2010, the Legislature appropriated $6 million from the State General Fund to the program. In 2011, CalCAP/SB expanded rapidly due to receiving funds from the United States Treasury State Small Business Credit Initiative (SSBCI) made available by the Small Business Jobs Act of 2010. CPCFA was awarded half of the total $168 million allocation to the State of California. Of this award, $19.5 million was allocated to expand the availability of the CalCAP/SB program to California small business owners. The remainder was allocated to the newly created Collateral Support Program. Lender participation in these programs has been enthusiastic, and the program funds are rapidly drawing down, as reflected in **Table A** below.

Similarly, the **CalCAP Heavy Duty Vehicle Loan Program** (or CalCAP/ARB) has been funded by the Air Resources Board, primarily with Air Quality Improvement Program monies, since 2009. Since then, ARB has allocated a total of $104.3 million for CPCFA to administer the program, typically increments of $10 million per fiscal year. When program expenditures accelerated in 2014 due to increasing lender participation, ARB directed CPCFA to decrease the contributions per loan for lenders whose loss reserve account had built up over time. Additionally, ARB allocated an unprecedented $22 million in 2016-17, with further direction that CPCFA research and implement mechanisms to sustain the program, including a recapture of contributions for matured loans to account for a reduction in new program injections in future years.

Based on our volume and expenditure trends in each of these programs over the past two years, we estimate that the program funds will be exhausted as follows:

Table A

Program	Program Allocation[1]	Administrative Costs	Net Allocation	Expenditures To Date[2]	Remaining Funds	Est. End Date[3]
CalCAP/SB Federal	19,896,095	2,467,751	17,428,344	16,663,267	765,077	June 2017
CalCAP/SB State[4]	6,000,000	300,000	5,700,000	3,428,114	2,271,886	Unknown
Collateral Support Program	65,140,207	616,937	64,523,270	57,132,396	7,390,874	December 2017
CalCAP/ARB	104,300,000	7,301,000	96,999,000	86,388,721	10,610,279	October 2017

Per the SSBCI program guidelines from the U.S. Treasury, the Collateral Support Program has a built-in recapture mechanism. CPCFA designed the Collateral Support Program to withdraw a portion of each cash deposit on an annual basis as the respective enrolled loan matures. To date, CPCFA has recaptured $24 million, to be used to support future Collateral Support Program enrollments and expenditures.

The accelerating expenditure rate of the remaining program funds in the CalCAP/SB and the CalCAP/ARB programs, however, has triggered the need to design and implement a recapture mechanism to provide similar program sustainability. Lawmakers advancing newly established CalCAP programs have built recapture mechanisms into the enabling legislation, requiring recapture of the publicly funded matching contributions after a certain loan term or when good loans mature. Since 2015, CPCFA has engaged in lender discussion to generate input towards this goal for the two legacy programs. There is broad conceptual support among CalCAP funders, lenders and the small business community towards this goal. Developing a formula or mechanism requires the consideration and prioritization of several key values and objectives, such as:

- Sustainability and longevity of the credit enhancement program absent new funding.
- Lender confidence in the availability of future matching contributions.
- Maintaining CalCAP programs' inherent stability as a risk-sharing credit enhancement that supplements each lender's strong underwriting, safe lending practices and existing allowance for loan loss reserve.
- A recapture formula calibrated to each lender's ability to choose the level of risk-sharing based on the fee and loan amount the lender selects.
- An appropriate relationship between the recapture applied and a lender's default and claim rate.
- Regular recycling of program funds to recruit additional lenders to reach underserved regions and industrial and market sectors in California.

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[1] The allocations are adjusted from the original award from the U.S. Treasury to reflect an additional $321,716.50 allocated to CalCAP/SB from a fourth tranche awarded in December 2016, and an additional $440,207.00 reallocated from the Small Business Loan Guarantee Program to the Collateral Support Program in February 2017.
[2] As of March 10, 2017.
[3] Estimated based on historic program activity data.
[4] The $6 million allocation appropriated in 2010 from the State General Fund supports additional matching contributions for borrowers located in severely affected communities, and for the occasional loan that does not meet the eligibility criteria under the federal SSBCI program rules.

- Keeping CalCAP administratively simple, applying a uniform methodology regardless of different business approaches between lenders.
- Phasing in the recapture mechanism to enable lenders to plan for the program change, while ensuring program funding is recycled before the current allocations are expended.

➢ ***CPCFA seeks specific suggestions and data-driven explanations in support of a recapture formula or mechanism which meets many or all of these objectives.***

B. Pooling Fees and Contributions

At the same time that these well-established CalCAP programs need mechanisms to ensure the renewability of program funding, decision-makers are authorizing funding for new "specialty" CalCAP programs to achieve specific state objectives. In the last three years, CPCFA has adopted regulations for three new programs including:

- Electric Vehicle Charging Station Financing Program (CalCAP/EVCS) funded by $2 million from the California Energy Commission utilizing AB 118 monies.
- The California Americans with Disabilities Act Financing Program (CalCAP/ADA) funded by a $10 million appropriation from the State General Fund.
- The California Seismic Safety Loan Program (CalCAP/Seismic Safety) funded by a $10 million appropriate from the State General Fund.

These specialty programs include distinct risk-sharing structures tailored to the specific types of lending and the availability of collateral to secure the loans, designed to make the participation in these programs more attractive to lenders. However, traditional program and accounting practices compel CPCFA to set up individual loss reserve accounts for each of these programs. In other words, for each different CalCAP program that a lender participates in, CPCFA manages a separate loss reserve account for that lender to build up and tap into in the event of a default and claim. This approach requiring strict separation of loss reserve accounts even requires participants in the CalCAP/SB program to maintain two separate accounts – one for loans eligible under the federal rules, and the other for those enrolled under state rules. The multiplicity of accounts serves to undermine the power of aggregating the fees and contributions deposited in CalCAP loss reserve accounts.

➢ ***CPCFA seeks specific feedback on the concept of permitting a lender to elect to pool their CalCAP loss reserve accounts, and if so what program or administrative considerations should be built into the pooling.***

C. Increasing the Initial State Contribution for New Lenders

There is a considerably large untapped market of small business borrowers and lenders in California that can take advantage of CalCAP. The Small Business Administration reports that its small lending in the state in FY2016 topped $5 billion, with over 10,000 borrowers and 233 lenders. This compares to CalCAP/SB, with a total of $101 million enrolled on behalf of 2350 borrowers by 39 lenders in calendar year 2016. Despite the increased availability of funds for the CalCAP programs, our annual reports depict areas of the state and industry classifications that remain stubbornly underserved. Increasing the participation by lenders serving all geographic and market sectors is essential to diversifying the participation by eligible borrowers. In addition, CPCFA's newest program – the CalCAP/Seismic Safety – is open to residential homeowners in addition to businesses thereby opening up participation to eligible lenders specializing in mortgage lending which we are eager to recruit.

Staff understands that new lenders are conservative about participating given the number of loan enrollments it takes to build up a comfortable loss reserve account balance, in the event an enrolled loan defaults. This hesitance was partially addressed in the CalCAP/ARB program by offering enhanced contributions for new lenders until their loss reserve reaches a set amount (not counting claim amounts). With more aggressive matching contributions from CPCFA at the start of program participation, a new lender's loss reserve account builds up more quickly.

- ***CPCFA seeks specific feedback, particularly from lenders who have not yet participated in one or more CalCAP programs, regarding whether an enhanced contribution schedule would succeed in attracting their participation in CalCAP/SB or other specialty programs.***

D. Lender Reservation System

Both new and existing lenders also seek confidence in the long-term availability of program funding. Deciding whether to participate in a pooled risk-sharing program like CalCAP can turn on some certainty that CPCFA will be able to make matching contributions over the reasonably foreseeable life of the portfolio a lender wishes to enroll. The recapture mechanism addressed above is designed in part to address this need, by freeing up older funds contributed against matured loans and recycling them to support the enrollment of new loans.

Another mechanism that may serve to boost lender confidence in available funding and therefore increased participation, would be one where a lender can reserve a certain amount of available program funding for a period of time, to enable the lender to write a foreseeable volume of loans in a given portfolio.

> *Example for Discussion: Lender A predicts that it can underwrite $2,000,000 of microloans over the next 24 months, and would implement a business plan to do so if it could be assured of having the CalCAP matching contributions available during that business cycle. CPCFA would obligate the reservation on behalf of the lender, holding the funds at CPCFA's trustee bank, much like it does with the Collateral Support Program. Upon each successful loan enrollment, CPCFA would move the matching contribution from the obligated allocation to the lender's loss reserve account.*

Using this example, CPCFA seeks specific suggestions on how this would work administratively, including:

- Should the ability to apply for a reservation be open on a rolling basis, or managed as a periodic offering?
- Should the reservation be limited to new lenders, to encourage participation?
- Should a reservation be awarded on a first-come, first-serve, or based on some specific criterion or demonstration of likelihood to use the reserved amounts?
- Should there be a maximum percentage or cap placed on the total amount of program funds subject to reservation at any given time?
- Should there be a maximum time for a reservation before the funds are de-obligated if unused by the lender?
- What should be the fee for reserving the funds? Should the fee be related to the length of time of the reservation? Should portions of the reservation fee be available for use by the lender to support its enrollment fee associated with each qualified loan?

- ***CPCFA seeks specific responses to these questions and whether other administrative considerations should be in place, to ensure that such a reservation system achieved its goal of increasing lender confidence in the availability of the program funds and in an equitable way.***

E. Maintaining Default Rates at or Below the National Average

Through the life of the CalCAP program, the annual default rate of enrolled loans has generally been comparable to the national average for small business lending. It is with great pride that we make this statement when speaking to policymakers and other funders. It helps to underscore the value of CalCAP as a credit enhancement that facilitates the access of capital to our thriving and growing small business marketplace in California, without compromising on the prudent lending standards we promote as stewards of sound finance strategies.

- ***CPCFA seeks specific suggestions that would be helpful to ensure that the lenders participating in CalCAP remain exemplary in promoting and adhering to safe and sound lending practices.***

<u>INSTRUCTIONS FOR SUBMISSION</u>

A. Presentation Proposals

CPCFA seeks proposals for presentations on each of the areas below, to present at the CalCAP Stakeholder Symposium on April 26, 2017. Depending on the number of proposals submitted, CPCFA anticipates selecting three to four presentations comprising of speakers across the range of stakeholders including funders, lenders, borrowers and organizations, which will collectively address the breadth and depth of the five topics discussed in this Request.

- Proposals may be submitted by a single individual, an organization, or a collaborative group. Please identify all members of the collaborative group.
- Presentation proposals should assume 10-15 minutes of direct speaking time.
- Each proposal should include:
    1. A one-page cogent outline of the topics and recommendations to be included in the proposed presentation in a .DOC or .PDF format.
    2. A slide deck including at a minimum one slide for each major topic or proposal. Data-driven graphics are encouraged to support the presenter's recommendations. The slide deck should be in a single .PPT file.
    3. Presentation proposals should be supported by appropriate data or other examples, organized as a supplemental handout in a single .PPT or .PDF file format.
- Please attach the 3 components above to an email to the CalCAP inbox at CalCAP@treasurer.ca.gov.
    - The email Subject should be: Symposium Presentation Proposal.
    - In the Body of the email, please identify the name(s) of the person(s) and/or organization(s) who will present if selected. If the presentation is by a group, please identify the single point of contact to work on further coordination if the presentation is selected.

- **<u>CPCFA will consider all presentation proposals received no later than Thursday, April 13, 2017 at 5:00 p.m.</u>**

Once selected, CPCFA will coordinate with the selected presenters in advance of the event to ensure that the final presentations are edited to fit the time allotted, and slide decks and other supporting materials are organized and available for all Symposium participants. For proposals which are not selected, the submittal will still be included as part of the public record of CPCFA's informal comment period and considered in the development of draft regulations for the CalCAP/SB and CalCAP/ARB programs.

B. Written Comments

CPCFA also seeks written comment on these program possibilities, as well as any other administrative improvements that should be considered for inclusion in forthcoming program rulemakings. Recommendations are best when supported by data, examples or other concrete rationale upon which objective agency decisions can be based.

- Please attach the written comment to an email to the CalCAP inbox at CalCAP@treasurer.ca.gov.
  - The email Subject should be: Stakeholder Comments.
  - In the Body of the email, please identify the name(s) of the person(s) and/or organization(s) who provided the comment.

- **CPCFA will consider all written comments received no later than Wednesday, May 3, 2017 at 5:00 p.m.**