

**CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY
CALIFORNIA CAPITAL ACCESS PROGRAM (CalCAP)**

Meeting Date: January 17, 2012

Report Regarding Contributions for Severely Affected Communities

Prepared by: *Gisele Geiger*

Summary. Recent legislation allows the California Capital Access Program (CalCAP or the “Program”) to contribute additional incentives to lenders enrolling loans where the borrower resides within a Severely Affected Community as it has done historically. Severely Affected Communities are defined in statute and regulation as areas of high unemployment, those within an Enterprise Zone, or any other comparable economically distressed geographic area designated by the executive director. When CPCFA received the state fund appropriation in 2010 it was the intent that CalCAP contribute more in areas of high unemployment. CPCFA is contributing an amount greater than the minimum required by statute in order to provide a greater benefit to small businesses located in these areas and to expend available State funds.

Background. CalCAP was the subject of two pieces of legislation (AB 901 (Perez), Ch. 483 and AB 981 (Hueso), Ch. 484 of Statutes of 2011) that took effect on January 1, 2012. The bills expanded the definition of “financial institution” to include For Profit Community Development Financial Institutions and Microbusiness lenders. They also increased the requirements of the annual CalCAP report to the Legislature to include number of businesses served, jobs created, jobs retained, the geographic distribution of the loans, and the breakdown of businesses served by industry sector. The bills included language changes to allow CPCFA to return to making increased contributions to lenders for borrowers located within Severely Affected Communities. The bills will also make some adjustments as to how much interest CPCFA can sweep from lender loss reserve accounts to cover its administrative costs.

To encourage lending to small businesses throughout California, CalCAP establishes loan loss reserve accounts in which borrowers and lenders are required to deposit between 2% and 3.5% of the loan dollars enrolled to help insure against losses. CPCFA then deposits a matching fee to the loss reserve account. Historically the CalCAP Match was equal to the combined amount of the borrower and lender contributions. In 2008, due to concerns about reduced CPCFA funds, legislation was enacted (SB 1311 (Simitian) Ch. 401 of Statutes of 2008), to reduce the CalCAP contribution to an amount equal to the lender contribution. The effect of this and other changes at the time was to noticeably reduce the number of loans enrolled in CalCAP.

Prior to the appropriation of \$6 million State funds in 2010 through legislation (AB 1632 (Committee on Budget, Economic Development) Ch. 731 of Statutes of 2010), CalCAP provided an additional incentive to borrowers with businesses located in Severely Affected Communities. Severely Affected Communities were defined in statute as those areas located within an

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Enterprise Zone and any other comparable economically distressed geographic area designated by the executive director. For businesses in these areas, CPCFA would contribute 150% of the lender fee (up to 5.25% in the case given above). All other enrollments received a contribution equal to the amount of the lender fee.

Upon receipt of the State funds in 2010, CalCAP was able to increase the size of contributions made to loss reserve accounts to 150% of the lender contribution for all loan enrollments. AB 1632 directed the Executive Director to expand the definition of Severely Affected Communities to include areas with an unemployment rate above 110% of the statewide average. Due to an anomaly in the current statute related to the 2008 legislative changes, CPCFA was unable to provide the increased loss reserve account contribution for businesses located in severely affected communities when the loss reserve contribution was increased for all loan enrollments. Staff informed the CPCFA Board in October 2010 that there may need to be a delay in using State funds to provided added contributions in Severely Affected Communities until there was a legislative fix. AB 981 provided that fix.

In 2011 CalCAP was again able to increase its portion of contributions to loss reserve accounts to an amount equal to the combined lender and borrower fee when it received the Federal State Small Business Credit Initiative allocation.

Program Implementation. Amendments to the CPCFA statute included in AB 981 granted the Executive Director the ability to return to paying a higher contribution to lenders with qualified borrowers located within a Severely Affected Community. While CPCFA statute requires a total CalCAP contribution equal to 150% of the lender contribution, CPCFA is contributing at a higher rate pursuant to the historic practice and direction of the Board in October 2010. When an enrollment qualifies for the Severely Affected Community contribution the lender and the borrower both deposit a fee of 2% to 3.5% of the loan amount, CalCAP deposits a Federal or State fund match of 3% to 7%, and a Severely Affected Community match of 2% to 3.5% using the State fund. The total contribution from all sources for these enrollments to the lender's loss reserve account can be up to 17.5% of the loan amount.

Contribution Rates

	Federal Fund Qualified Enrollment	State Fund Qualified Enrollment
Lender	2% - 3.5%	2% - 3.5%
Borrower	2% - 3.5%	2% - 3.5%
Federal Funds	4% - 7%	
State Funds		3% - 5.25%
Additional State Funds in Severely Affected Community	2% - 3.5%	2% - 3.5%

Example: State Fund Contribution on a \$10,000 Enrollment

Loan Dollars Enrolled	\$10,000
Borrower Contribution (2%)	\$200
Lender Contribution (2%)	\$200
State Fund Contribution (3%)	\$300
<i>Severely Affected Community Contribution (2%)</i>	<i>\$200</i>
Total Contribution to Lender's Loss Reserve Account	<u>\$900</u>

Example: Federal Fund Contribution on a \$10,000 Enrollment

Loan Dollars Enrolled	\$10,000
Borrower Contribution (2%)	\$200
Lender Contribution (2%)	\$200
Federal Fund Contribution (4%)	\$400
<i>Severely Affected Community Contribution (2%)</i>	<i>\$200</i>
Total Contribution to Lender's Loss Reserve Account	<u>\$1,000</u>

Staff notified lenders participating in CalCAP of the available increase and has implemented procedures to pay an additional contribution equal to the lender's contribution for all businesses located within either an Enterprise Zone or a high unemployment area. CalCAP lenders self-certify that enrollments qualify for the additional contribution by submitting supporting documentation with their loan enrollments. This documentation is verified by CPCFA staff.