



CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK

2012-2013 ANNUAL REPORT

TO THE

GOVERNOR AND LEGISLATURE

Prepared by the Program Manager for the

**CALIFORNIA SMALL BUSINESS FINANCE CENTER
CALIFORNIA SMALL BUSINESS LOAN GUARANTEE PROGRAM**

**TEVEIA R. BARNES
EXECUTIVE DIRECTOR AND PROGRAM MANAGER
980 9th Street, Suite 900
Sacramento, California 95814**

A copy of this report may be obtained at www.ibank.ca.gov or by calling (916) 322-1399.

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SMALL BUSINESS LOAN GUARANTEE PROGRAM

Fiscal Year 2012-2013 Annual Report

Introduction

The California Small Business Finance Center is the governmental unit within the California Infrastructure and Economic Development Bank (I-Bank) and has the administrative responsibility for the California Small Business Loan Guarantee Program. This annual report is required by California Government Code Section 63089.98(a) and contains the following information:

- Direct loans and loan guarantees awarded and outstanding balances
- Default and loss statistics
- Employment data
- Ethnicity and gender data of financial development corporations and loan recipients.
- Significant events.

Background

The California Small Business Loan Guarantee Program (SBLGP) promotes local economic development by providing guarantees for loans issued to small businesses from financial institutions, typically banks, that otherwise would not approve a term loan or line of credit to a small business. As a result of the SBLGP, participating small businesses are able to secure financing that allows them to grow and expand their business. The loan guarantee serves as a credit enhancement and an incentive for financial institutions to make loans to small businesses that otherwise would not be eligible for such financing.

Besides guarantees for term loans and lines of credit, the SBLGP features emergency guarantees to assist businesses in the event of a natural disaster, and direct farm loans to help growers who cannot obtain conventional bank financing. The farm loans are guaranteed by the U. S. Department of Agriculture.

The SBLGP was approved for \$84.2 million in federal funds from the U.S. Treasury under the State Small Business Credit Initiative (SSBCI), a component of President Obama's Small Business Jobs Act. The SSBCI funds have unique requirements. Consequently, the SSBCI-funded loan guarantees are administered separately as a subset of the SBLGP. Thus, since 2011, the SBLGP has consisted of two subsets: the state-funded portion of the Program and the federal SSBCI-funded portion.

There are eleven California small business financial development corporations (FDCs) created pursuant to the California Corporations Code (starting with section 14000, and referred to as the California Small Business Financial Development Corporation Law) that administer guarantees

under the state and federal loan guarantee programs. Each FDC is a nonprofit corporation with general responsibilities for:

- 1) Marketing SSBCI and SBLGP.
- 2) Underwriting the loan guarantees
- 3) Coordinating the loan guarantee documents and/or and loan packages
- 3) Executing and issuing the loan guarantees, and
- 4) Ensuring that lenders follow the required default procedures before requesting payment on defaulted loans.

Fiscal Year 2012-13 Results

Number of Guaranteed Loans in SSBCI program

With the receipt of the first tranche of federal SSBCI funds in February 2011, the SBLGP gave priority to the new SSBCI program to ensure the utilization of the federal funds as quickly as possible. The State is required to utilize at least 80% of the federal SSBCI funds before the State may request the next disbursement from the U.S. Treasury.

In FY 2012-13, a total of 222 SSBCI small business loans were guaranteed in the amount of \$49.7 million. In addition, over 4,770 jobs were created and retained.

Since its inception in February 2011 through June 30, 2013, there have been 446 loan guarantees issued under SSBCI for approximately \$89.9 million in guarantees. Over 11,000 jobs were created and retained during this period.

Number of Guaranteed Loans in State-funded program

During the fiscal year ending June 30, 2013, the State-funded program was limited to guarantee renewals within the managed SBLGP portfolio and guarantees that did not meet the requirements in the federal SSBCI program.

In FY 2012-13, 96 guarantees were made under the state-funded program in the amount of \$7.1 million. Jobs created and retained as a result of loan guarantees totaled 941.

Guarantee Portfolio as of June 30, 2013

The Trust Fund account balances at the end of the fiscal year were:

- \$34,788,844 in the State-Funded Trust Fund account; and
- \$26,431,783 in the Federally-funded Trust Fund account.

Demographic Distribution: Ethnicity and Gender

The following tables show the percentage of loan guarantees issued by ethnicity and gender.

Ethnic Background of Loan Guarantee Recipients (Both Federal and State Loan Guarantee Programs combined) FY 2012-13

Ethnicity	Number of Recipients	Percentage
Caucasian	209	67.86%
Asian/Pacific Islander	36	11.69%
Hispanic	23	7.47%
African American	11	3.57%
Asian Indian	10	3.25%
Native American	1	.32%
Other	18	5.84%
TOTAL	308	100.0%

Gender of Loan Guarantee Recipients (Both Federal and State Loan Guarantee Program combined) FY 2012-13

Gender	Number of Recipients	Percentage
Men	184	59.74%
Women	72	23.38%
Co-owned Equally by Men and Women	52	16.88%
TOTAL	308	100.00%

SBLGP Loan Guarantee Loss Experience-State-Funded Program

Losses experienced within the loan guarantee program during the most recent fiscal years were principally a result of the down turn in the economy. Many long term businesses failed as result of the overall contraction in economy and loss of customer base.

The following table depicts the net loss rate for the SBLGP since Fiscal Year 2007-08:

Fiscal Year	Default Payments	Default Recoveries	Net Loss Rate 5 year Moving average *
2012-13	\$2,272,678	\$137,270	4.95%

2011-12	\$3,610,672	\$118,893	3.85%
2010-11	\$5,424,862	\$85,800	2.86%
2009-10	\$4,578,303	\$28,842	1.86%
2008-09	\$4,632,779	\$70,793	1.10%
2007-08	\$1,467,499	\$53,962	0.54%

* Based on the average guarantee encumbrance outstanding.

SBLGP Loan Guarantee Loss Experience-Federally-Funded Program, SSBCI:

Fiscal Year	Default Payments	Default Recoveries	Program Loss Rate*	Net Loss Rate 5-year Moving average
2012-13	\$12,906.25	\$0	.0002%	N/A
2011-12	\$0	\$0	0%	N/A

*Based upon Cumulative losses as a percentage of Cumulative Guarantees of \$84,036,715.68.

Significant Events

State Small Business Credit Initiative

The ending of FY 2012-13 marks 16 months working with the SSBCI federally-funded program. As part of the federal award, funds totaling \$168 million will be shared equally between the California Small Business Loan Guarantee Program and the California Pollution Control Financing Authority. A total of up to \$84 million each may be drawn under three disbursements. The initial allocation (1st tranche) from the U.S. Treasury totaled \$27 million and was received in FY 2010-11 (February 2011).

The second SSBCI tranche of \$55,218,250 was received by the State Treasurers Office in December 2013. The SBLGP is entitled to 50% of the second disbursement or \$27,609,125.

Fiscal year 2012-13 was the last year Business, Transportation and Housing Agency (BTH) administered the Small Business Loan Guarantee Program. As part of the Governor's Reorganization Plan, effective July 1, 2013 the program was transferred to the Governor's Office of Business and Economic Development. The enactment of AB 1247 placed the SBLGP under the Infrastructure and Economic Development Bank in October 2013.

Conclusion

1. California small businesses remain in need of capital to sustain growth, and maintain their market share. With the continuing changes in the financial markets, small businesses are still finding access to capital an elusive and critical prerequisite to their long-term success.

2. The State's network of financial development corporations established to assist small businesses thrive also have found the changes in the financial markets a challenge as they seek lenders willing to take the additional risks that small businesses often present. The FDCs have reported that due to tremendous turnover in loan professionals in their respective regions, it is difficult to identify new loan officers that are familiar with our state loan guarantee. This has created a marketing challenge and has had an impact on how lenders and small businesses participate in and utilize the state program efficiently and effectively.
3. Losses in the SBLGP have continued over the last fiscal year. A net loss of \$2.1 million was realized during the fiscal year partly due to the economic conditions present in the regional economies and partly due to the continued tightening of capital.

As of June 30, 2013, there has been \$12,906.25 in losses under the SSBCI program.

It is anticipated that with the transfer of the program to the California Infrastructure and Economic Development Bank, the SBLGP will continue to promote economic growth for small businesses, including minority and women-owned businesses, by enabling these businesses to receive much needed financing when they could not do so otherwise.

Appendix

Table 1
FY 2012-13 Federally-Funded SSBCI Production, by FDC

<u>FDC Name</u>	<u>Initial Guarantee Liability</u>	<u>Jobs Created and Retained</u>
California Capital	\$678,803	111
California Coastal	\$1,737,650	152
California Southern	\$11,613,469	1,192
Hancock	\$1,148,400	91
Inland Empire	\$380,103	5
Nor Cal	\$9,964,678	910
Orange County	\$6,242,570	1,064
Pacific Coast	\$1,755,400	64
SAFE-BIDCO	\$3,936,000	262
San Fernando	\$850,000	215
Valley	\$11,458,772	704
Totals	\$49,765,845	4,770

Table 2
FY 2012-13 State-funded SBLGP Production, by FDC

<u>FDC Name</u>	<u>Initial Guarantee Liability</u>	<u>Jobs Created and Retained</u>
California Capital	\$805,000	93
California Coastal	\$160,000	3
California Southern	953,600	43
Hancock	\$42,5000	30
Inland Empire	\$0	0
Nor Cal	\$2,065,338	392
Orange County	\$0	0
Pacific Coast	\$0	0
SAFE-BIDCO	\$742,400	57
San Fernando	\$745,744	111
Valley	\$1,664,530	197
Totals	\$7,179,112	926

Table 3
FY 2012-13 Federally- Funded SSBCI Default and Recoveries, by FDC

<u>FDC Name</u>	<u>Default Payouts</u>	<u>Default Recoveries</u>	<u>Program Loss Rate*</u>
California Capital	\$0	\$0	0%
California Coastal	\$0	\$0	0%
California Southern	\$0	\$0	0%
Hancock	\$0	\$0	0%
Inland Empire	\$0	\$0	0%
Nor Cal	\$0	\$0	0%
Orange County	\$0	\$0	0%
Pacific Coast	\$0	\$0	0%
SAFE-BIDCO	\$0	\$0	0%
San Fernando	\$12,906.25	\$0	.0002%
Valley	\$0	\$0	0%
Totals	\$12,906.25	\$0	.0002%

*Based upon Cumulative losses as a percentage of Cumulative Guarantees of \$84,036,715.68.

Table 4
FY 2012-13 State-Funded SBLGP Default and Recoveries, by FDC

<u>FDC Name</u>	<u>Default Payouts</u>	<u>Default Recoveries</u>	<u>Net Loss rate 5-year Moving average *</u>
California Capital	\$195,192.62	\$8,793.00	7.15 %
California Coastal	\$420,620.69	\$114,255.00	5.38 %
California Southern	\$370,434.69	\$0	3.42 %
Hancock	\$209,955.53	\$2,853.00	5.50 %
Inland Empire	\$139,635.80	\$4,556.00	7.44 %
Nor Cal	\$496,739.64	\$0	3.62%
Orange County	\$0	\$0	5.63 %
Pacific Coast	\$132,542.27	\$6,813.00	11.75 %
SAFE-BIDCO	\$0	\$0	1.60 %
San Fernando	\$0	\$0	3.22 %
Valley	\$307,556.50	\$0	2.88 %
Totals	\$2,272,677.74	\$137,270.00	4.95%

* Based on the average guarantee encumbrance outstanding.