Small Business Finance Center

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK

Small Business Loan Guarantee Program

Financial Development Corporation Policy Manual

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I. AT-A-GLANCE

This Small Business Loan Guarantee Program (SBLGP) Financial Development Corporation (FDC) Policy Manual provides instructions, examples, and requirements for enrolling small business loans and making demands on guarantees (filing claims).

FDCs are expected to use this manual as a guide and to frequently visit IBank's Small Business Finance Center website at http://www.ibank.ca.gov/small-business-finance-center/financial-development-corporations/ for the most current version of the manual, updated forms, and latest Directives & Requirements.

II. ELIGIBILITY REQUIREMENTS

The SBLGP offers eligible Financial Institutions (lenders) a mechanism to provide loans to small businesses that may otherwise not be able to obtain a loan under conventional underwriting. With the SBLGP, lenders are provided coverage on guaranteed loan defaults. Loans can be term loans or lines-of-credit, short-term or long-term, have fixed or variable rates, be secured or unsecured, and bear any type of amortization schedule. The loan must be for an eligible business purpose. Guarantees may be for a maximum of seven years.

A. Program Funding Sources

1. Small Business Loan Guarantee Program

Loan Requirements	▪ $20M max loan amount ▪ Loan proceeds must be used in the State of California ▪ Loan proceeds must be used for an eligible business purpose
Max Guarantee	▪ 80% or $1M (whichever is less) outstanding loan guarantee liability per business, including affiliates
Business Requirements	▪ 1-750 employees ▪ The business activity must be eligible under the program and in one of the industries listed in the North American Industry Classification System (NAICS) codes list. ✓ NAICS: http://www.census.gov/eos/www/naics
Authorized Loan Types or Uses	Permissible use of loan proceeds may include: ▪ Bridge Loans ▪ Building Purchase ▪ Business Procurement ▪ Construction (new) ▪ Equipment Purchase ▪ Inventory ▪ Start-Up Costs ▪ Tenant Improvements ▪ Working Capital ▪ Franchise Fees ▪ Acquisition of Land ▪ Renovation of Buildings
Fees	▪ 2.5% of the guarantee ▪ $250 loan documentation fee

2. Disaster Relief Loan Guarantee Program

Loan Requirements	▪ $1.25M max loan amount ▪ Loan proceeds must be used to recover from: Significant Actual Physical Damage Significant Economic Injury
Max Guarantee	▪ 95% or $1M (whichever is less) based on interest rate: 95% guarantee – interest rate does not exceed WSJP + 1% 90% guarantee – interest rate is between WSJP + 1% and WSJP + 2% 85% guarantee – interest rate exceeds WSJP +2%
Business Requirements	▪ Meets the requirements of the Small Business Loan Guarantee Program and is located in a Disaster Area ▪ The business activity must be eligible under the program and in one of the industries listed in the North American Industry Classification System (NAICS) codes list. ✓ NAICS: http://www.census.gov/eos/www/naics
Fees	▪ 2.5% of the guarantee ▪ $250 loan documentation fee

3. Bay Area Air Quality Management District (BAAQMD) Loan Guarantee Program

Loan Requirements	▪ $20M max loan amount ▪ Loan proceeds must be used in BAAQMD coverage area ▪ Loan proceeds must be used to purchase emerging clean technology and/or any other purpose deemed eligible by the BAAQMD that is allowable under the SBLGP ▪ Borrower must submit an Engineering Evaluation of the eligible technology by the BAAQMD
Max Guarantee	▪ 90% or $2.5M (whichever is less) outstanding loan guarantee liability per business, including affiliates
Business Requirements	▪ Business must be located in the BAAQMD coverage area ▪ 1-750 employees ▪ The business activity must be eligible under the program and in one of the industries listed in the North American Industry Classification System (NAICS) codes list. ✓ NAICS: http://www.census.gov/eos/www/naics
Fees	▪ 2.5% of the guarantee ▪ $250 loan documentation fee

B. Business Requirements

1. Eligible and Non-Eligible Small Business Types

Most common small business types are eligible for participation in the SBLGP. However, certain businesses and activities are precluded from enrolling in the program. This table provides examples and should not be considered a comprehensive listing of eligible or non-eligible small business types.

Type of Business	Eligibility
Charitable, non-profit or religious institutions	Eligible
Businesses that earn more than half their annual net revenue from lending activities (unless a CDFI)	Eligible w/ IBank Exception
Firms engaged in activities that are prohibited by federal law or applicable law in the jurisdiction where the business is located or conducted	Eligible w/ IBank Exception
Businesses engaged in speculative activities that develop profits from fluctuations in price rather than through the normal course of trade	Not Eligible
Facilities Primarily Used for Gambling or to Facilitate Gambling	Not Eligible
Firms engaged primarily in lobbying activities	Not Eligible

2. Eligible Small Business Structures

- ✓ Sole Proprietor – Individual using legal name as business name that files a Schedule C, Schedule F, or has a fictitious business name or DBA statement
  - *If the loan appears to be in the name of an individual, evidence of Sole Proprietorship will be required and may include a Schedule C, Schedule F, Sellers Permit, and/or fictitious business name or DBA statement.
- ✓ Limited Liability Company
- ✓ Cooperative
- ✓ Corporation
- ✓ Partnership
- ✓ S-Corporation
- ✓ Not-for-profit

IBank will not accept an individual as the borrower. It is permissible for an individual to be a guarantor or co-borrower on the loan, but the primary borrower must be a small business.

C. Use of Proceeds Requirements

1. Eligible and Non-Eligible Use of Proceeds

This table provides examples only and should not be considered a comprehensive listing of eligible or non-eligible use of proceeds.

Loan Purpose	Eligibility
Refinance other financial institution debt provided original loan was for an eligible business purpose	Eligible
Finance goodwill	Eligible
Purchase any portion of the ownership interest of any owner of the business	Eligible
Reimburse funds owned to any owner, including any equity injection or injection of capital for the business' continuance	Eligible
Construction or purchase of residential real estate	Eligible w/ IBank Exception
Financing a non-business purpose	Not Eligible
Fund any portion of an SBA loan (guaranteed or unguaranteed)	Not Eligible
Enrolling same loan in two or more credit enhancement programs for any purpose	Not Eligible
Lobbying activities	Not Eligible
Passive real estate investment	Not Eligible
Repay delinquent federal or state taxes	Not Eligible
Two loans for the same purpose, initiated at the same time, AND enrolled in two different government guarantee programs (as determined by IBank)	Not Eligible

2. Eligible Real Estate Transaction Requirements

Purchases of real estate, securities or the acquisition or holding of any other real property for passive investment purposes are not considered eligible business purposes under the SBLGP.

a. Real Estate Holding Companies

Acquisition and holding of real property by a real estate holding company that uses guaranteed loan proceeds and subsequently leases the property to one or more Operating Companies (OC) is permissible if **all** of the following criteria is met:

i. 100 percent of the rentable property acquired with a guaranteed loan must be leased to one or more operating companies.

ii. A holding company can take any legal form or ownership structure.

iii. Operating Company must:

- Be an eligible small business;

- Be a guarantor or co-borrower on the loan to the holding company;
- Not sublease more than 49% of the total rentable square footage for an existing building; and
- Not sublease more than 40% of the total rentable square footage for a new building.

iv. Both holding and operating companies must:
- Execute a written lease with a term at least equal to the term of the guarantee; and
- Provide personal guarantees by each natural person holding an ownership interest of at least 20% of either the passive or operating company.

b. Real Estate Owner Occupancy Requirements

Purchases of real estate used partially by the borrower's business is an eligible business use of SBLGP funds if **one** of the following is met:

i. Funds used for construction of new building: small business must occupy and use no less than 60% of the total rentable property; or

ii. Funds used for acquisition, renovation of an existing building: small business must occupy and use no less than 51% of the total rentable property.

c. Eligible with IBank Exception

If the borrower certifies the property is used in connection with the borrower's business receiving the loan guarantee and not strictly for investment purposes, no specific occupation percentage is required for funds used for passive real estate, with an IBank exception.

3. Refinance Requirements

As stated on the Conditional Approval Request (CAR), there are three refinance scenarios, each with its own requirements to be eligible for enrollment in the program. All three scenarios require a statement that the refinance is a benefit to the borrower. All three scenarios also require the previous use of proceeds to be eligible. When refinancing previously guaranteed loans, a CAR must be submitted no later than **90 days** after the maturity date on the original loan.

a. Same Lender Refinance

Same lender refinance is only eligible for enrollment if all of the following conditions are met:

Same Bank Refinance Loan Is Not Already Enrolled in SBLGP	Same Bank Refinance Loan is Already Enrolled in SBLGP
✓ Refinance includes advancement of new monies.	✓ Refinance is based on new underwriting.
✓ Refinance is based on new underwriting.	✓ New loan documents and guarantee documents are executed.
✓ Sole purpose is not refinancing debt with same lender (not just refinancing to refinance) indicated by a written benefit to the borrower.	✓ Sole purpose is not refinancing debt with same lender (not just refinancing to refinance) indicated by a written benefit to the borrower.
✓ Prior loan or line-of-credit has already matured. Maturity was not accelerated.	

b. Different Lender Refinance

Refinancing and enrolling a different lender's loan into the program is permissible if all the following conditions are met:

Loan is a Refinance from a Different Lender
✓ Loan being refinanced meets all SBLGP eligibility requirements including eligible purpose, eligible business, and eligible lending institution; ✓ Reasonable documentation exists to demonstrate eligible purpose of loan being refinanced; and ✓ FDC and/or lender loan write-up explains how the refinance benefits the borrower.

The following types of lenders that qualify to be refinanced include, but may not be limited to:

- ✓ Federal or State-chartered Bank
- ✓ Savings Association
- ✓ Certified Community Development Financial Institutions (CDFI)
- ✓ Credit Union
- ✓ Farm Credit System Insurance Corporation (FCSIC)
- ✓ Factoring Company
- ✓ Leasing Company
- ✓ Finance Company
- ✓ Other lenders may be approved on a case by case basis

c. Credit Card Debt Refinance

Refinances can only pay off debt of the borrowing business entity and cannot be the personal debt of an individual or guarantor. Paying off business debt accumulated on business credit cards is considered the same as refinancing an existing business loan. For a business credit card

debt refinance to be an eligible loan purpose, the credit card statements that show the business name must be submitted to IBank as part of the CAR. IBank may require statements to show some purchase transactions. IBank will not allow the refinance of a personal credit card, even if the borrower claims it was used for business purposes.

III. ENROLLING A LENDER

A. Overview

To participate in the SBLGP and maintain a lender/guarantor relationship with FDCs, a lender must first certify that it is in possession of sufficient commercial lending experience, financial and managerial capacity, and operational skills.

A lender can apply for enrollment into SBLGP by completing a "Lender Certification to Participate" and emailing it directly to IBank at SBFC@IBank.ca.gov, or through the FDC of choice.

IBank will review the certification and evaluate the lender according to SBFC procedures. There may be no regulatory action against the lender. If a lender does not meet the standards, the request to participate will be declined.

Lenders are required to submit the "Lender Certification to Participate" each year. IBank will review the certifications quarterly to ensure continued eligibility. This form can be found in Chapter VIII.

B. Eligible Financial Institutions

The following lenders are eligible to participate in the SBLGP:

- ✓ Federal or State-chartered Bank
- ✓ Savings Association
- ✓ Certified Community Development Financial Institutions (CDFI)
- ✓ Credit Union
- ✓ Farm Credit System Insurance Corporation (FCSIC)

Note: Eligible financial institutions must be in good standing with regulatory body (Federal Reserve, Federal Deposit Insurance Corporation (FDIC), Comptroller of Currency, Thrift Supervision, National Credit Union Administration (NCUA), or state banking authority). http://www.dbo.ca.gov/Licensees/licensee_search.asp

C. Non-Eligible Lenders

Examples of lenders that do not qualify to participate include, but may not be limited to, finance companies, brokers, pay-day lenders, and private party lenders.

IV. ENROLLING A LOAN GUARANTEE

D. Overview

SBLGP enrollment and final guarantee documents should be sent to IBank through the online application portal at the following address: http://applications.ibank.ca.gov. FDCs must submit a "Conditional Approval Request" (CAR) to IBank **before** the loan is made. Final guarantee documents must be received by IBank within **30 business days** of the FDC and lender signing the guarantee. Lender credit memo or FDC write-up must contain the ownership structure of all business entities including percentage of ownership.

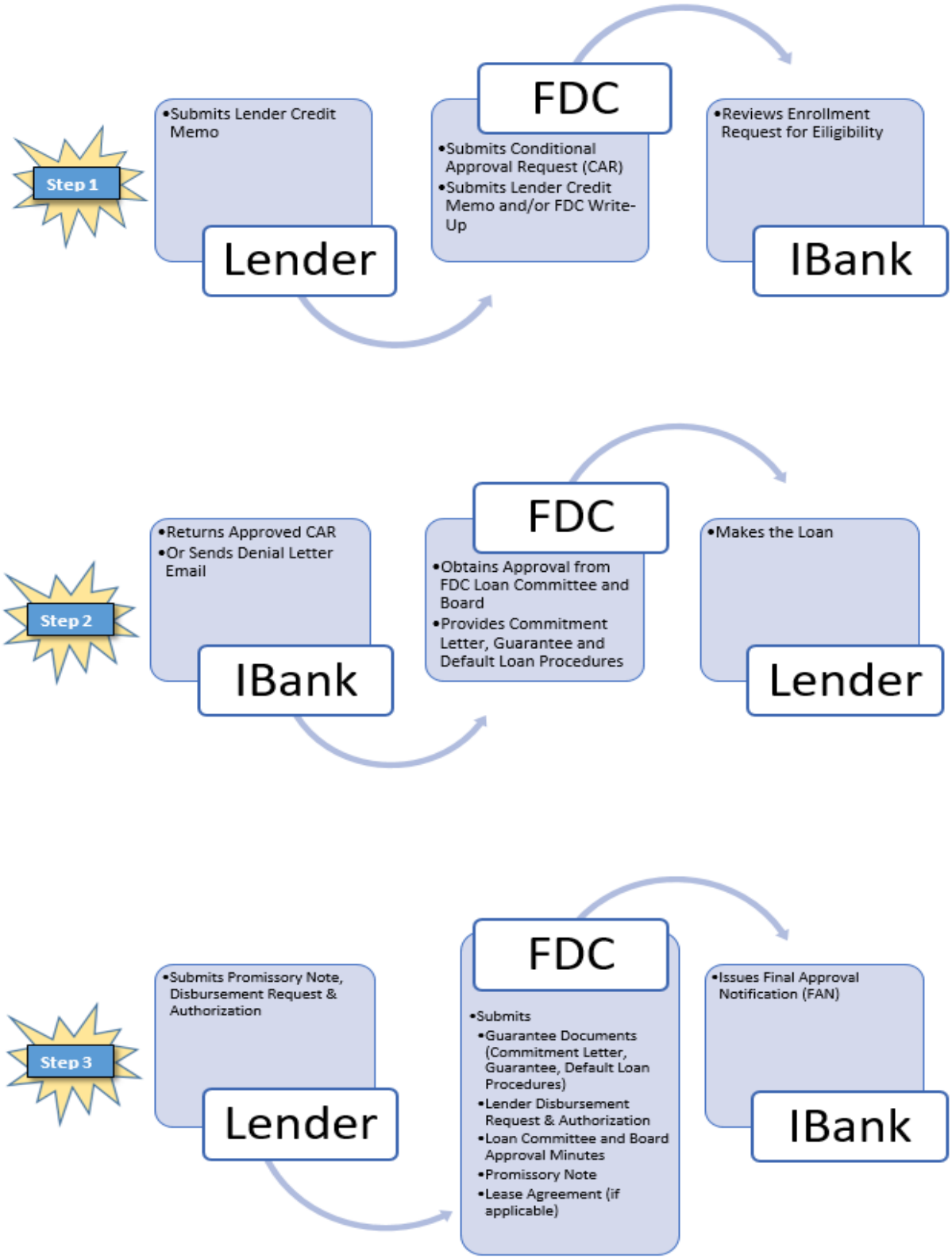
For detailed instructions on how to complete the SBLGP CAR, please refer to Chapter VIII.

FDCs must complete, sign, and date the following forms and documentation with each guarantee enrollment:

	Submit to IBank:	
	With Enrollment Request	**After Guarantee is Made**
Required		
1. Conditional Approval Request (CAR)	√	
2. Lender Credit Memo	√	
3. FDC Loan Write-Up *	√	
4. Promissory Note		√
5. Lender Disbursement Schedule**		√
6. Commitment Letter		√
7. Guarantee Agreement		√
8. Default Procedure		√
9. FDC Loan Committee Meeting Minutes		√
10. Board Approval Meeting Minutes		√
If Applicable		
12. Lease Agreement for Eligible Real Estate Transactions with Holding Companies		√

* Not required for microloans as defined in the Directives & Requirements as $100,000 or less.
**For term loans or lines of credit where the original disbursement authorization is "undisbursed", follow-up disbursement documentation must be collected and retained by the FDC. This information will be required at the time a claim is made against the guarantee and must be available when requested by IBank or authorized auditors. Term loans require documentation for all disbursements, while lines of credit require documentation of the first disbursement.

E. SBLGP Enrollment Process



V. SUBMITTING A DEMAND ON A GUARANTEE

A. Overview

Pursuant to IBank's Demand Procedures as outlined in Section 5003 of IBank's SBLGP Directives & Requirements, the lender shall be authorized to make a demand upon the FDC for repayment of the defaulted loan's unpaid principal, and interest up to 90 days earned but unpaid.

For a guarantee demand to be paid by IBank, lenders and FDCs must submit a "Request for Payment on Defaulted Guarantee" form to IBank. For detailed instructions on how to complete the "Request for Payment on Defaulted Guarantee" please see Chapter VIII, section F.

All demand documents must be emailed to IBank at: SBFC@ibank.ca.gov

B. Small Business Loan Guarantee Demand Request

When a guaranteed loan defaults, the lender must submit specific documents to the FDC within timelines prescribed by IBank's SBLGP Directives & Requirements. Similarly, once FDCs are notified of a demand, FDCs must also comply with certain requirements before IBank issues any payments on the defaulted loan.

1. Lender Demand on FDC

- Two lender delinquency letters must be sent to the borrower at least 30 days apart and explain the consequences for failure to remedy the delinquency. Copies of the letters must be delivered to the FDC at the same time they are sent to the borrower.
- The demand letter to the FDC must contain a calculation of the unpaid loan principal and interest balance and must be accompanied by evidence of the borrower's default (i.e. loan payment history records). The guaranteed interest amount is calculated based on the outstanding principal loan balance at the time of default and cannot exceed 90 days.
- The lender must liquidate all borrower collateral by converting the collateral into cash. Lenders are only exempt from the liquidation requirement if the borrower has filed for bankruptcy, the lender can demonstrate that the collateral is without sufficient value to convert to cash, or lender can show good faith effort to liquidate.
- Liquidated collateral must be deducted from the outstanding loan principal balance.

  Example: Outstanding principal loan balance is $10,500. Liquidated collateral yields $5,000. The adjusted principal balance is $5,500 ($10,500 minus $5,000). With a guarantee percentage of 80%, the guaranteed principal amount is $4,400 (80% of $5,500).

- For term loans, if original disbursement is “undisbursed”, follow-up disbursement documentation will be required at the time a demand is made against the guarantee and must be available when requested by IBank for audits.

2. FDC Demand on IBank

- Within **10 business days** of receipt of the demand letter from the lender, FDCs must contract with an independent auditor or the California Department of Business Oversight to conduct an investigation on whether the lender complied with all terms of the guarantee. The report must address all items described in IBank’s SBLGP Directives & Requirements Section 5003(c)(1)-(9).

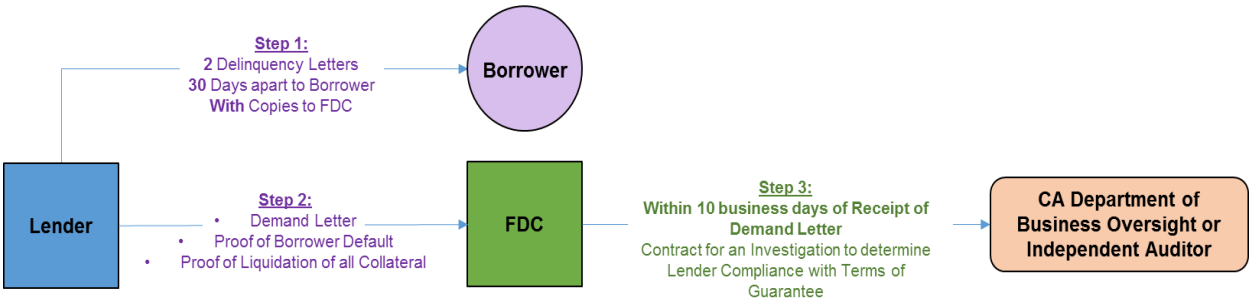
- Within **10 business days** of receipt of the investigation report, FDCs must submit to IBank a request for payment or notify the lender that the demand has been denied.

- FDCs must contact the lender within **5 business days** of receipt of the IBank check to make arrangements for delivery of the check. Upon delivery, the FDC must collect an assignment of the lender’s interest in the loan including the loan note and all collateral.

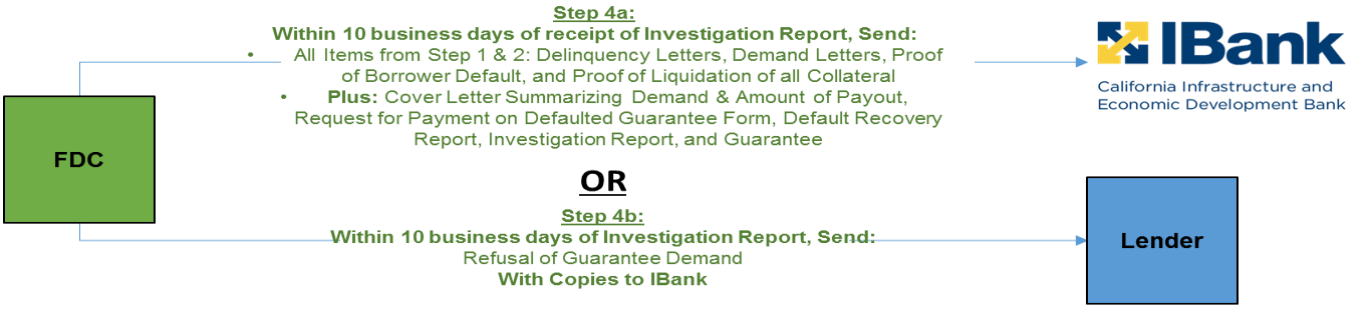
Checklist for Lender Demand on FDC	
1. Two Delinquency Letters to Borrower	√
2. Demand Letter	√
3. Proof of Borrower Default	√
4. Proof of Liquidation of Collateral	√
Checklist for FDC Demand on IBank	
1. Demand Cover Letter	√
2. Investigation Report	√
3. Request for Payment on Defaulted Guarantee (or notice to lender of refusal of payment)	√
5. Two Delinquency Letters to Borrower	√
6. Collect Assignment of Lender’s Interest in the Loan	√

C. Summary

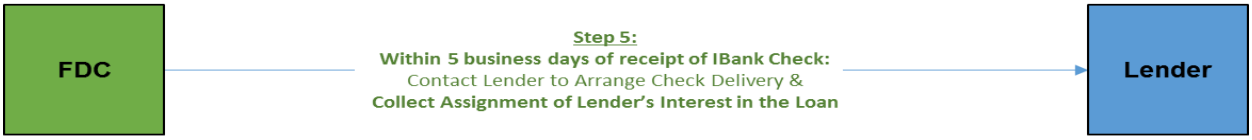
Phase I: Upon Lender's Demand on FDC



Phase II: Upon FDC Receipt of Investigation Report from California Department of Business Oversight or independent auditor



Phase III: Upon FDC Receipt of Check from IBank



VI. REGULAR REPORTING

FDCs are by statute and contractually required to regularly report to IBank on the status of loan guarantees enrolled with the SBGLP. Currently, IBank requires certain quarterly, and annual reports to be submitted as follows:

Reports	Reporting Frequency	
	Quarterly	Annually
Articles of Incorporation & Bylaws from Prior Fiscal Year		✓
Audited Financial Statements		✓
Board Approved FDC Budget for Current Fiscal Year		✓
Default Recovery Report	✓	
FDC Strategic Plan or Plan of Operation		✓
Full FDC Staff Roster		✓
Loan Guarantee Database Update	✓	
Projected Fiscal Year Summary of Authorized Program Activities		✓

A. Quarterly Reporting

At the end of each quarter, FDCs must submit a "Loan Guarantee Database Update" to IBank that includes the current balance and credit rating of active guarantees, and notification of graduated guarantees.

Recovery efforts on defaulted loans are the responsibility of the FDCs. FDCs must submit a "Default Recovery Report" to IBank quarterly. If there is no activity, submit a nil report. For detailed instructions on how to complete the "Default Recovery Report" please see Chapter VIII, section G.

Quarterly database updates and "Default Recovery Reports" are due electronically to IBank within **15 days** of the end of each quarter as follows:

Quarter Begins	Quarter Ends	Due to IBank
January 1	March 31	**April 15**
April 1	June 30	**July 15**
July 1	September 30	**October 15**
October 1	December 31	**January 15**

- Database Updates must be submitted via email to: SBFC@ibank.ca.gov
- Default Recovery Reports must be submitted via email to: SBFC@ibank.ca.gov

FDCs should report loans in the quarter associated with the guarantee recognition date, regardless of whether the FAR approval has been received from IBank. The guarantee recognition date is either the date on the promissory note or the date the guarantee was signed, whichever is dated and signed last.

B. Annual Reporting

California Government Code Chapter 6 - Small Business Financial Assistance Act of 2013, Article 11 Section 63089.97 specifies reporting requirements for FDC. Pursuant to the Government Code, FDCs must annually submit their:

- Articles of Incorporations & Bylaws
- Audited Financial Statements
- Board Approved Budget
- Strategic Plan or Plan of Operation
- Projected Fiscal Year Summary of Authorized Program Activities

All annual reports must be submitted to IBank **by July 31.** The Audited Financial Statements are due to IBank **by October 31** for the prior fiscal year. These reports can be in any format. IBank does not supply templates or have specific substance requirements other than what is listed in the Government Code. Refer to Chapter IX, section C for the full text of Government Code 63089.97.

In addition, FDCs are also required to submit a full staff roster IBank. The staff roster should list names, titles, email addresses and phone numbers of all employees, loan committee members, and Board of Director members.

C. Change in FDC Points of Contact

To ensure the FDC is aware of all current IBank Directives & Requirements as well as changes to program policies or practices, FDCs should keep IBank informed about any changes to key FDC contacts by sending a brief memo to IBank with the new or updated name, address, phone or email contact information. Specifically, FDCs should inform IBank of changes to:

- **Main Contact** – FDC primary contact.
- **Public Contact** – FDC contact for public inquiries (name and address will be published on IBank's website).
- **Financial Contact** – FDC contact authorized to discuss guarantee documents, reports, default claims, etc. with IBank.
- **General Emailing List** – on occasion, IBank sends out email announcements for new processes, new forms, FDC roundtable meetings, etc. FDCs should provide the email addresses for those wishing to receive such correspondence.

Updates should be submitted to IBank's SBLGP email at: SBFC@ibank.ca.gov with "Change in FDC Contact" referenced in the email subject line.

VII. ADDITIONAL PROGRAM REQUIREMENTS

A. FDC Loan Approval

FDC board of directors are given the responsibility to approve or decline loan applications reviewed by the FDC's loan committee. The board of directors has the ability to delegate approval authority to the loan committee.

B. Disclosing Conflicts of Interest

FDCs are required to inform IBank (via email and FDC Credit Memo) of any actual, potential, or perceived conflicts of interest between the FDC and/or IBank and the lender and/or borrower (including affiliates and guarantors). This includes the organization, boards, committees, individuals, and family members of these entities. IBank reserves the right to refuse to issue a guarantee or require a guarantee be initiated by a different FDC based on any actual, potential, or perceived conflict of interest.

C. Assigning Unique Loan Number

Each loan in the application portal must have a unique loan number associated with it. The loan number cannot be a duplicate and associated with more than one loan. Denied or withdrawn loan numbers cannot be reused or assigned to new loan applications.

D. Loan Modifications

FDCs must obtain IBank's prior written consent for modifications to existing loan guarantees. Situations that may require approval include:

- Changes to maturity
- Changes in the amount of the loan
- Release or reduction of collateral
- Changes in payment and/or amortization schedule
- Increase in guarantee percentage

E. Record Retention Periods

For loans guaranteed in the original Federal program, the State Small Business Credit Initiative (SSBCI)**, lenders and FDCs must retain all financial records and supporting documents at least through January 30, 2020.**

IBank's record retention policy for all other loans is as follows:

- All financial records and supporting documents for Guarantees must be kept for 5 years from the date the Guarantee expires
- All financial records and supporting documents for any Demand must be kept indefinitely if monies are still owed and/or instruments still held

- Fully recovered Guarantee Payments must be kept for 7 years from the date of full recovery

VIII. FDC FORMS AND INSTRUCTIONS

Examples of forms, including detailed instructions, required by IBank for utilization, enrollment of loans, demand requests and reporting for SBLGP are provided in this section. FDCs should always refer to the SBLGP website to download the most current forms:

http://www.ibank.ca.gov/small-business-finance-center/financial-development-corporations/
http://applications.ibank.ca.gov/

A. Lender Certification to Participate

California Infrastructure and Economic Development Bank
Small Business Finance Center

ANNUAL CERTIFICATION TO PARTICIPATE
IN THE SMALL BUSINESS LOAN GUARANTEE PROGRAM (SBLGP)

Name of Participating Financial Institution:_____

Contact Name:_____ Title:_____

Address: _____ City:_____ State:_____ Zip:_____

Phone: _____Alt Phone:_____ Email_____ EIN:_____

This Participating Financial Institution:

- Certifies following is accurate for all SBLGP enrollments:
  1. The loan or investment has not been made in order to place under the protection of the program prior debt that is not covered under the program and that is or was owed by the borrower to the lender or to an affiliate of the lender.
  2. The borrower is a "Small Business"; a Farm Enterprise; or a non-profit public benefit organization or social welfare organization that has received and maintains tax exempt status under the IRS code 501 (c)3 or 501 (c)4, with 1-750 employees including any and all affiliates.
  3. Borrower obtained a loan in which the funds are for business use in the State of California.
  4. The maximum loan amount is $20,000,000 and the maximum guarantee is $1,000,000 per borrower/business including affiliates.
  5. The loan proceeds will be used for a "business purpose." Business purpose includes, but is not limited to, start-up costs, working capital, business procurement, franchise fees, equipment, inventory, as well as the purchase, construction renovation or tenant improvements of an eligible place of business that is not for passive real estate investment purposes. The loan proceeds will not be used for purposes prohibited by the Small Business Finance Center rules.
  6. Borrower is not:
     a) An executive officer, director, or principal shareholder of the lender.
     b) A member of the immediate family of an executive officer, director, or principal shareholder of the lenders.
     c) A related interest of an executive officer, director, principal shareholder, or member of the immediate family.

     For the purposes of these three restrictions, the terms "executive officer", "director", "principal shareholder", "immediate family", and "related interest" refer to the same relationship to a lender as the relationship described in part 215 of title 12 of the Code of Federal Regulations, or any successor to such part.
  7. Borrower is not:
     a) A business engaged in speculative activities that develop profits from fluctuations in price rather than through normal course of trade.
     b) A business engaged in activities that are prohibited by federal law or applicable law in the jurisdiction where the business is located or conducted.
- Certifies that there have been no changes to the status of the Participating Financial Institution since the previous agreement.

Any Participating Financial Institution which fails to comply with the above certifications will be suspended from receiving SBLGP guarantees.

Authorized Signature Date

Title

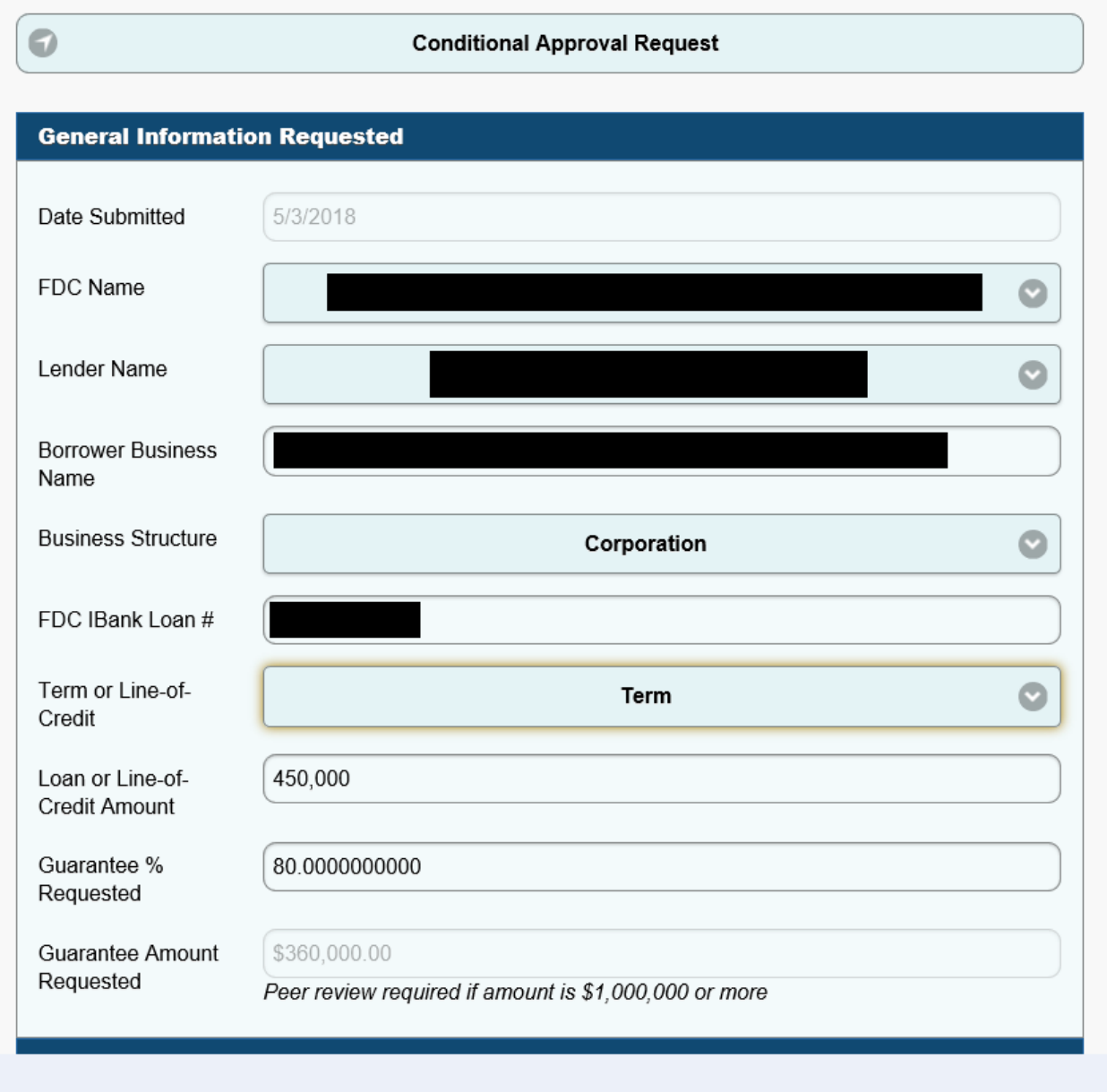
California Infrastructure and Economic Development Bank Use Only		
Program Manager Signature & Date	Valid Thru Fiscal Year	FDIC#/CDFI#

Revised July 1, 2019

B. Instructions for the Conditional Approval Request (CAR)

This section provides instructions for FDCs on how to complete the SBLGP Conditional Approval Request (CAR), which is the primary initial information needed from FDCs to enroll a loan guarantee with the SBLGP.

General Information Requested Section



Field:	Information Needed:
▪ Date Submitted	✓ Date Conditional Approval Request is completed (automated).
▪ FDC Name	✓ Name of FDC enrolling the guarantee and submitting the CAR (Dropdown Box).

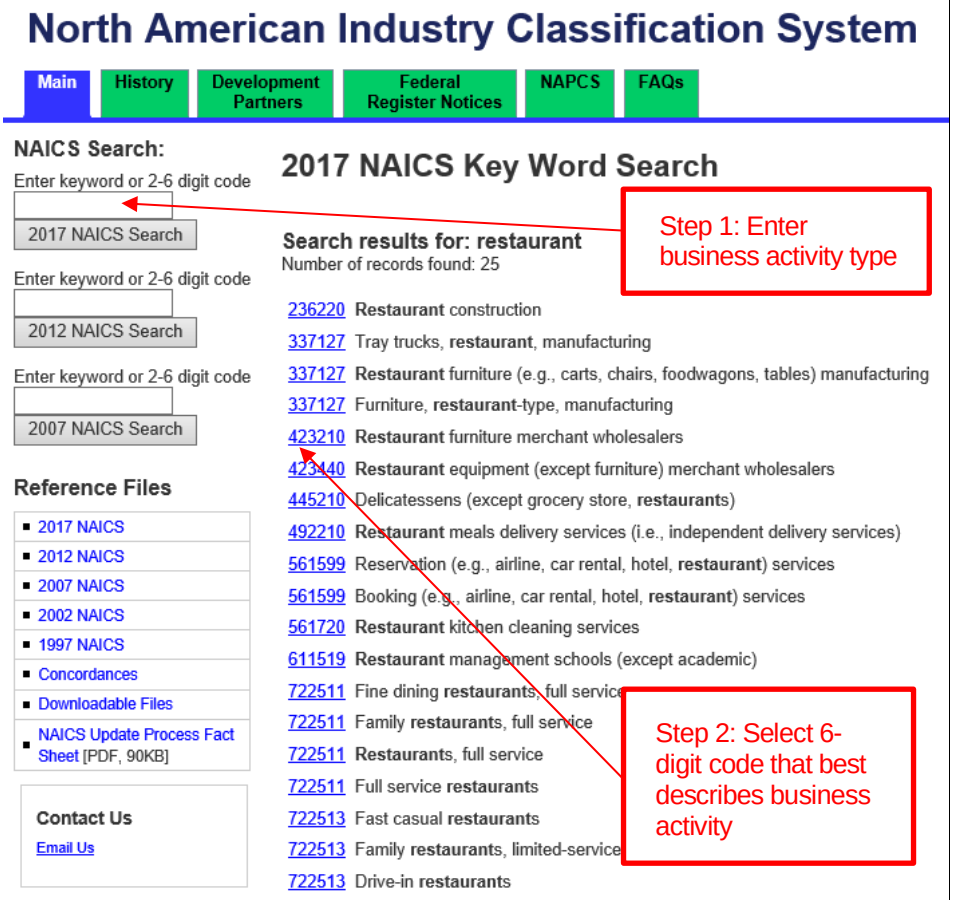
▪ Lender Name	✓ Name of lender making the loan (Dropdown Box).
▪ Borrower Business Name	✓ Name of business requesting the loan & DBA, if applicable.
▪ Business Structure	✓ Dropdown box to choose sole proprietorship, partnership, limited liability Company, or corporation.
▪ FDC IBank Loan # (for Database)	✓ List the unique IBank loan number associated with the borrower's loan and begins with the FDC's prefix, followed by the loan number. The loan number cannot be a duplicate and associated with more than one loan. Denied or withdrawn loan numbers cannot be reused or assigned to new loan applications. ➢ This is **not** the lender's loan number.
▪ Term or Line-of-Credit	✓ Dropdown to choose term loan or line-of-credit.
▪ Loan or Line-of-Credit Amount	✓ List the full amount of the term loan or line-of-credit not to exceed $20 million.
▪ Guarantee % Requested	✓ List the desired guarantee *percentage*. ➢ The guarantee percentage input here will automatically calculate the guarantee amount in the field below.
▪ Guarantee Amount Requested	✓ This amount is automatically calculated. This is the original Guarantee Amount.

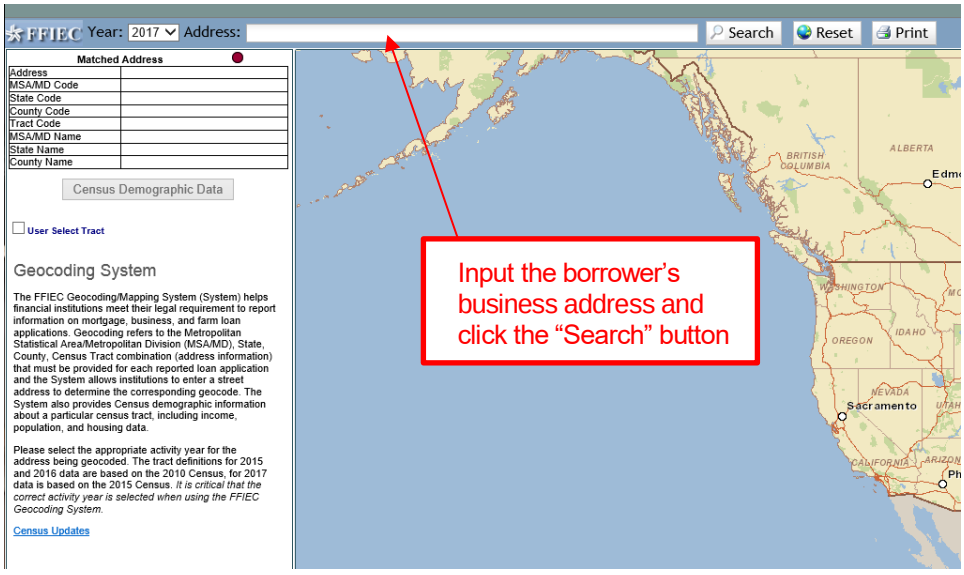
Additional Borrower & Loan Information Section

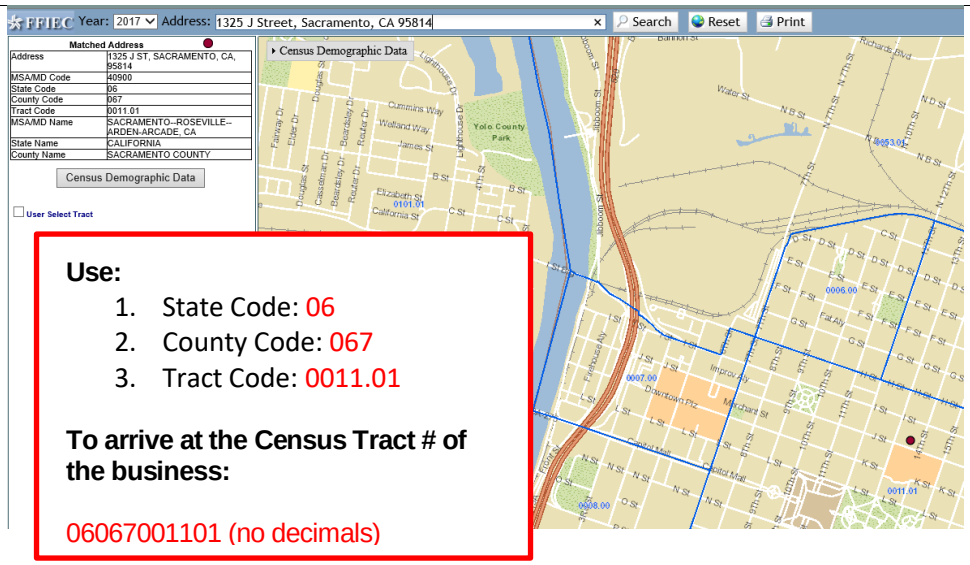
Additional Borrower & Loan Information

Zip Code (where funds will be used)	[redacted]
Annual Revenues (last fiscal year)	564,000
# of Jobs Created	25
NAICS Code	[redacted]
Business Activity	[redacted]
Concurrent Private Financing Amount	0
Year Business Incorporated	2014
Full Time Equivalents (FTEs)	150
# of Jobs Retained	125
Census Tract #	[redacted]

Field:	Information Needed:
▪ Zip Code (where funds will be used)	✓ List the zip code where the proceeds of the loan are being used.
▪ Annual Revenues (last fiscal year)	✓ List the borrower's annual business revenues for the last fiscal year—rounded to the nearest whole dollar amount. ✓ If the business is a start-up, use the current income or $0.
▪ # of Jobs Created	✓ Number of jobs created for the business as a result of the loan. ➢ Count each person, full or part time. ➢ If jobs are not created as a result of the loan, use "0". ✓ If enrolling multiple loans for a business, only enter information for first enrolled loan.

▪ NAICS Code	✓ Six digit number used by the North American Industry Classification System (NAICS) to categorize business types. ➢ https://www.census.gov/eos/www/naics/ 
▪ Business Activity	✓ List the function of the business: "What does the business do?" (E.g. retail sales, carpet cleaning, burger restaurant, etc.)
▪ Concurrent Private Financing Amount	✓ List the amount of other loans made in conjunction with this loan that are not SBLGP guaranteed but would not have been made without the SBLGP loan.
▪ Year Business Incorporated	✓ 4-digit year the business was incorporated, opened, or was taken over by the borrower. ➢ If the business is a start-up, list the current year.
▪ Full Time Equivalents (FTEs)	✓ Number of full time equivalent (FTE) employees of the business rounded to the nearest whole number. Must be a minimum of 1 and cannot exceed 750. ➢ The number of an employer's Full Time Equivalents (FTEs) is determined by dividing the total hours for which the borrower pays wages to all employees during the year by the number of employee work hours per year. The standard calculation for employee work hours per year is 2080: calculated by multiplying 52 weeks by 40 hours per week. FTEs must not exceed 750 for SBLGP loans.

	➢ *Example:* In a single year a borrower pays 5 employees' wages for 2,080 hours each, 3 employees' wages for 1,040 hours each, and 1 employee's wages for 2,300 hours. The borrower's FTEs would be calculated as follows: Total hours not exceeding 2,080 per employee is the sum of: 10,400 hours for the 5 employees paid for 2,080 hours each (5 x 2,080) 3,120 hours for the 3 employees paid for 1,040 hours each (3 x 1,040) 2,080 hours for the 1 employee paid for 2,300 hours (lesser of 2,300 and 2,080) Total employee hours = 15,600 FTEs = 8 (15,600 divided by 2,080 = 7.5, rounded to the nearest whole number)
▪ # of Jobs Retained	✓ Number of jobs retained for the business as a result of the loan. ➢ Count each person, full or part time. ➢ If jobs are not retained as a result of the loan, use "0". ➢ If enrolling multiple loans for a business, only enter information for first enrolled loan.
▪ Census Tract #	✓ 11-digit number **(no decimal point)** used to identify the specific location of a business to provide more reporting consistency and uniformity. ➢ https://geomap.ffiec.gov/FFIECGeocMap/GeocodeMap1.aspx 



Use:

1. State Code: 06
2. County Code: 067
3. Tract Code: 0011.01

To arrive at the Census Tract # of the business:

06067001101 (no decimals)

How Funds Will Be Used Section

How Funds Will Be Used

Program: State

Eligible Use of Proceeds (select at least one)

- [ ] Bridge Loan
- [ ] Building Purchase
- [ ] Business Procurement
- [x] Construction (New)
- [x] Equipment Purchase
- [ ] Inventory
- [ ] Start-up Costs
- [ ] Tenant Improvements
- [x] Working Capital

Same Bank Refinance (Not already enrolled)

- [ ] Is there advancement of new money?
- [ ] Is there new underwriting?
- [ ] Not just refinancing to refinance.
- [ ] Has the loan matured?

Loan Maturity Date (if applicable)

Same Bank Refinance (Already enrolled)

- Is there new underwriting?
- Are the lender and borrower(s) signing new certifications?
- Will new loan documents be signed?
- Will a new Guarantee be issued?

Prior Loan # (if applicable)

Prior Loan # (if applicable)

Prior Loan # (if applicable)

Prior Loan # (if applicable)

Prior Loan # (if applicable)

Prior Loan # (if applicable)

Different Bank Loan Refinance

- Was the use of proceeds on the original loan eligible?
- Is there documentation to demonstrate the eligible use of proceeds on the original loan?
- Does the FDC Write-Up explain how the refinance benefits the borrower?

Field:	Information Needed:
▪ Program	✓ Indicate which program the loan will be guaranteed under.
▪ Eligible Use of Proceeds	✓ Choose the use of proceeds option from the menu that best describes the use of loan funds. ➢ If funds are used for more than one category, select all that apply.
▪ Same Bank Refinance	This is applicable for a refinance of an existing loan with the same lender **and** a new enrollment of the refinanced loan into

(Not already enrolled in SBLGP.) ☐ Is there advancement of new money? ☐ Is there new underwriting? ☐ Has the loan matured? Date: ☐ Not just refinancing to refinance.	SBLGP. The loan should not have been previously enrolled in SBLGP. ✓ Check if the refinance increases the amount of the loan or line-of-credit available to the borrower (required). ✓ Check if new underwriting occurred for the refinanced loan or line-of-credit (required). ✓ Check if the original loan or line-of-credit matured (required). If checked, also provide the maturity date. ✓ Check if the sole purpose of the refinance is not refinancing debt with the same lender. ➢ The credit memo should indicate the reason for the refinance and benefit to the borrower.
▪ <u>Same</u> Bank Refinance (Already enrolled in SBLGP.) ☐ Is there new underwriting? ☐ Are the lender and borrower(s) signing new certifications? ☐ Will new loan documents be signed? ☐ Will a new Guarantee be issued? If yes, provide prior SBLGP Loan #.	This is applicable for a refinance of an existing loan that is already enrolled in SBLGP with the same lender such as a renewal of a line-of-credit. ✓ Check if new underwriting occurred for the refinanced loan or line-of-credit (required). ✓ This is no longer required. ✓ Check if the refinance requires the issuance of new lender loan documents such as promissory note (required). ✓ Check if the refinance will be issued as a new guarantee under the SBLGP program (required). If checked, provide the prior SBLGP loan number(s) associated with this refinance. ➢ The credit memo should indicate the reason for the refinance and benefit to the borrower.
▪ <u>Different</u> Bank Loan Refinance ☐ Was the use of proceeds on the original loan SBLGP eligible? ☐ Is there documentation to demonstrate the eligible use of proceeds on the original loan?	This is applicable for a refinance of a loan from a different lender **and** a new enrollment of the refinanced loan into SBLGP. ✓ Check if the loan being refinanced was for an eligible SBLGP purpose. ➢ Refer to Chapter II, section C for examples of eligible loan proceeds. ✓ Check if documentation is available to support the use of funds on the loan being refinanced. ➢ Original use of funds documentation, other than credit card refinances, must be provided to IBank upon request.

☐ Does the FDC write-up explain how the refinance benefits the borrower?	➢ For credit card refinances, credit card statements must be submitted to IBank as part of the enrollment request. ➢ Statements must detail purchase transactions and cannot contain any purchase of personal nature. ✓ Check if the FDC write-up for the guarantee describes how the refinance benefits the borrower. ➢ The credit memo should indicate the reason for the refinance and benefit to the borrower.

C. Commitment Letter

California Infrastructure and Economic Development Bank (IBank)
Small Business Finance Center (SBFC)
Small Business Loan Guarantee Program (SBLGP)

COMMITMENT LETTER

Select Date Commitment Letter is Prepared

Lender Contact Name
Lender Contact Title
Lender Name
Lender Address
Lender City, CA Zip Code

Subject: Commitment Letter for a Credit Facility

Regarding: Borrower Business Name

This Guarantee is a: Click to Select This Guarantee is for a: Click to Select

Dear Lender Contact Name:

Pertinent Facts

I. Under the authority granted by Chapter 1 of the California Small Business Financial Development Corporation Law (commencing with Section 14000) of Title 1, Division 3, Part 5, (the "Small Business Act"), the Board of Directors of Click to Select, ("Corporation") in its capacity as a nonprofit California small business financial development corporation created pursuant to the Small Business Act, , having offices at Click to Select under the delegated lending authority granted on Select Date, conditionally authorized a Guarantee Percentage Spelled-Out **percent** (Guarantee Percentage # **%**) guarantee (the "Guarantee") on the Click to Select ("Loan") which has been offered to Auto-Fill ("Borrower") by Auto-Fill ("Lender"). However, Corporation's commitment to the Guarantee will expire on Select Date, (no more than 90 days) if the Loan has not been executed by that time. There is no minimum term for a guarantee. The maximum term of any guarantee is seven years, however a loan term may be longer.

II. The Loan principal amount is **$**Principal Amount **(**Principal Amount Spelled-Out**)** with a # of months month term. Repayment will consist of # of months months beginning Select Date, of approximately $Payment Amount (Payment Amount Spelled-Out) continuing each month until loan maturity on or before Select Date, or if other than each month, on the payment plan of Click here to enter text. **.** Be advised that a balloon payment does not constitute a default and, therefore, will not activate the loan guarantee. The interest rate is Interest Rate %**%** until Lender increases or decreases the interest rate based upon individual loan pricing and as changed from time to time by the Lender. The loan proceeds will be used to Description of

what loan is funding.

III. Corporation shall be paid fees totaling **$**Total Fee Amount **(**Total Fee Amount Spelled-Out**)** consisting of a $Guarantee Fee Amount (Guarantee Fee Amount Spelled-Out) guarantee fee which represents **2.5%** of the guaranteed portion of the Loan and a **$250** (Two Hundred and Fifty and No/100 Dollars) loan documentation fee. Lender agrees to pay these fees at the time the Loan documents are signed, and forward the fees to Corporation immediately.

IV. If Corporation's Guarantee is a "Collection Guarantee," then it is defined in the Directives & Requirements Section 5000 of the California Infrastructure and Economic Development Bank (IBank) for the Small Business Finance Center Programs (Directives and Requirements), and is valid and enforceable only against the outstanding Loan principal as of the date of Default (as defined in the Loan Default Procedures issued by the Corporation in connection with the Guarantee of the Loan/Line), minus subsequent payments attributed to principal and up to ninety (90) calendar days of post default interest earned and unpaid. The percentage of interest for which Corporation is liable under its Guarantee shall not exceed the percentage of Guarantee specified in paragraph I, above.

General

V. The Guarantee is conditionally offered and is not legally binding upon Corporation until and unless:

A. Lender executes a written, standard form, promissory note and credit agreement with Borrower for the entire amount of the Loan, with terms and conditions that incorporate those included in this Commitment Letter and the Guarantee executed by Corporation.

B. Lender executes and perfects security agreements as may be required in this Commitment Letter.

C. When utilizing Small Business Loan Guarantee Program funds, Lender shall annually execute the "Lender Certification to Participate in the Small Business Loan Guarantee Program"

D. Other: Add any additional conditions, if applicable. Otherwise, type "n/a".

Additional Conditions
Additional Conditions
Additional Conditions
Additional Conditions
Additional Conditions

These conditions shall be referred to as "conditions for issuance of the Guarantee".

VI. Lender agrees to abide by all applicable state and federal laws and regulations.

VII. Corporation's Guarantee covers "new debt" with Lender. Any and all balances open on any term loan or other indebtedness of the Borrower to the Lender or others at the time of the Guarantee's execution are not covered and will not be covered by the Guarantee. Lender shall provide Corporation with written confirmation of Borrower's existing debt at the time of the Guarantee's execution.

VIII. Lender has analyzed the financial capacity of the Borrower; Lender hereby confirms to Corporation the existence of all assets given as collateral to secure the Loan (Collateral) by personal inspection when possible or if not possible, then from independent third parties. Lender's representations to Corporation regarding the Borrower and the Borrower's financial capacity and Collateral are material to the Corporation's decision to offer the Guarantee of Lender's Loan to the Borrower notwithstanding any separate evaluation of the Borrower by Corporation.

IX. Lender warrants its evaluation of the Collateral securing the Loan to the Borrower provided in the above paragraph and agrees that it shall maintain an accurate record of all accounts of the Borrower to facilitate accessing all of the remedies available to the Lender under the California Uniform Commercial Code.

X. Lender and Corporation agree mutually to deal with one another in good faith in all aspects of their contractual relationship.

XI. If the Borrower is delinquent on the Loan payments, Lender shall evaluate all options for collection of the balance due on the Loan. Lender shall send the Borrower two delinquency notification letters at least 30 days apart prior to a Demand, except in the case of the Borrower filing for bankruptcy protection. Should the Loan become sixty (60) days delinquent for payment or otherwise seriously in default, Lender shall develop a liquidation strategy and plan that includes at a minimum an enumeration of the collateral in sufficient detail to identify and value the collateral assets and access the remedies available under the Uniform Commercial Code. A liquidation plan of action shall be submitted to Corporation for its review at the time the Lender accelerates the Loan and demands payment in full from the Borrower.

Collateral

XII. Corporation relies, as a pre-condition for issuance of the Guarantee, on the secured and perfected security interests in the Collateral. Failure by Lender to protect the perfected security interests in the Collateral reduces the value of the Collateral. In the event of any demand by Lender upon the Guarantee (a "Demand"), Corporation shall have the right to reduce its liability under the Guarantee by the amount the Collateral is reduced in value. Corporation is not entitled to reduce its Guarantee liability unless and until Corporation can demonstrate that the value of the Collateral was diminished because of Lender's failure to take all actions necessary to protect the Collateral. Lender further agrees to immediately inform Corporation of any activities which may diminish the value of the Collateral.

XIII. Lender certifies that all of the Collateral for the Guarantee is listed below in sub-parts of this paragraph. The actions required by Lender to perfect the security interest are also listed below in the sub-parts of this paragraph. In all cases, Lender must retain signed, and where customary notarized, originals of the documents listed below.

A. The following insurance policies must be kept in effect with loss payable endorsements to Lender (if applicable).

1. All risk insurance including fire, theft and liability for the business assets identified as follows: ☐Required ☐Not Required

Business Property
Borrower Business Address
Borrower Business Address
Borrower Business Address
Borrower Business Address

2. Fire and extended coverage insurance as follows:
☐Required ☐Not Required

Personal Property
Borrower Personal Address
Borrower Personal Address
Borrower Personal Address
Borrower Personal Address

The assets shall be insured for full value, but not to exceed replacement cost.

B. A Broad Form UCC financing statement filed with the Secretary of State, and/or any other agency as required by the California Commercial Code evidencing a security interest upon all business accounts receivable, inventory, equipment, furniture and fixtures currently owned or hereafter acquired. ☐Required ☐Not Required

Corporation shall have the right to rely on Lender's perfection of the security interests as described herein under California Law.

It is acknowledged that Lender's boilerplate language is acceptable and may be substituted in place of this verbiage.
Click here to enter text.

C. A valid Broad Form security interest shall be filed on all business accounts receivable, inventory, equipment, furniture and fixtures currently owned or hereafter acquired. ☐Required ☐Not Required

Corporation shall have the right to rely on Lender's perfection of the security interests in the Collateral as described herein under California Law.

Click here to enter text.

D. Deed of Trust on real property (if applicable): ☐Required ☐Not Required

1. Lender will execute and record a deed of trust on the property owned by Property Owner, located at Property Address. Lender to obtain an appraisal on the pledged real estate, with a minimum value of $Property Value.
   ☐Required ☐Not Required
2. Lender shall verify any senior liens and outstanding indebtedness recorded and otherwise known to Lender on the property listed in D-1.
3. Lender will execute and record a deed of trust on the property listed in D-1, which will be in Lien Position # and any further Description if applicable.
4. Lender will provide a Name of Title Report title report verifying the Lien Position # lien position on this loan.

E. Additional Collateral (if applicable)
Additional Collateral

XIV. Lender shall not substitute assets for Collateral listed in Paragraph XIII, or release, abandon or transfer its security interest or reduce its priority position without the prior written approval of IBank.

Limitations

XV. Loan disbursements shall be based upon the following formula:

A. According to Lender's Specifications.
B. Other: Add any additional conditions, if applicable. Otherwise, type "n/a".

XVI. Prior joint written approval of Corporation and Lender shall be required before Borrower can do any of the following:

A. Make or receive outside investments;
B. Borrow, pledge or encumber for additional monies;
C. Enter into a merger of acquisition;
D. Issue treasury stock;
E. Pay Dividends; and
F. Make interest or principal payments on the debts owed to any owners or officers. Lender shall require all such debts to be subordinated to the Loan.

Lender Reporting

XVII. Lender agrees to provide Corporation the following information, in writing, on a quarterly basis:

A. Principal balance of the Loan or Line of Credit.
B. Date and amount of last principal payment and interest payment.
C. Date Borrower's next principal payment and interest payment are due.

D. Status of the Loan (i.e., current, paid off).

XVIII. Lender agrees to provide Corporation with a copy of annual tax returns of the Borrower, within 30 days of filing date each year.

☐Required ☐Not Required ☐Upon Request

XIX. Lender agrees to provide Corporation with a copy of quarterly business financial statements, and accounts receivable and accounts payable aging of the Borrower, within 30 days of each quarters end.

☐Required ☐Not Required ☐Upon Request

XX. Lender agrees to provide Corporation with a copy of personal financial statements of the Borrower on the anniversary date of the Loan and personal tax returns of any Guarantor, within 30 days of filing each year.

☐Required ☐Not Required ☐Upon Request

XXI. Additional Reporting Requirements

Additional Reporting Requirements

Subsequent Events

XXII. Lender agrees to work closely with Corporation and the Borrower, and to notify Corporation orally, and in writing, immediately upon learning of any material change to the Loan or to the Borrower. Lender agrees to take reasonable steps to ensure that it is apprised of any material changes to the financial condition and operations of the Borrower.

XXIII. Lender agrees to service the entire Loan, and agrees that the entire Loan will be secured by the same Collateral with equal lien priority for the guaranteed and unguaranteed portions of the Loan. The unguaranteed portion of the Loan will not be paid first or given any preference or priority over the guaranteed portion.

XXIV. Lender agrees to return to Corporation copies of all signed Loan and Guarantee documents within ten (10) working days of signing the documents. Lender further agrees to send to Corporation, conformed or filed, stamped or recorded copies of all perfected security agreements for the Collateral as soon as available.

XXV. Corporation relies upon Lender to legally perfect all Collateral, to execute and deliver all Loan and Collateral documents, and to ensure satisfaction of all terms and conditions required by the Loan and Guarantee agreements. Lender warrants to Corporation that it has taken all actions necessary to properly prepare and file said documents. This is a condition precedent to the validity of the Guarantee.

California Small Business Loan Guarantee Program

COMMITMENT LETTER

XXVI. All disbursements on the Loan shall be evidenced by Lender's standard form of promissory note and credit agreement and the terms and conditions of this Guarantee are to be incorporated into said note and credit agreement.

XXVII. In the event of the filing of a voluntary or involuntary bankruptcy by or against the Borrower, Corporation and Lender agree to cooperate to reach decisions within the time frames required by the Bankruptcy Code and the Bankruptcy Court. This would include decisions involving cash collateral orders, debtor-in-possession financing or attempts to modify the automatic stay to enable Corporation and Lender to realize on the Collateral. Corporation, upon payment under the Guarantee, shall be the owner of the claim against the estate for the purpose of making such decisions.

XXVIII. In the event of a Demand, as defined in the Directives and Requirements, Lender shall allow a representative of the California Department of Business Oversight, or other auditor selected by the Corporation, to examine the Lender's loan files.

Please review the terms and conditions contained herein, and sign as indicated below. Each person signing on behalf of Lender and Corporation warrant that they are authorized to sign on behalf of the organization they represent and bind that organization to the specific performance of the above terms and conditions. Execution of this Commitment Letter by the parties shall constitute a valid and enforceable agreement between the parties, their successors and assigns hereto.

Signed this ____ day of _____, ____	Signed this ____ day of _____, ____
Click to Select FDC	Auto-Fill
_____	_____
Authorized Signatory	Authorized Signatory
_____	_____
Print Name & Title	Print Name & Title

D. Loan Guarantee

California Infrastructure and Economic Development Bank (IBank)
Small Business Finance Center (SBFC)
Small Business Loan Guarantee Program (SBLGP)

LOAN GUARANTEE

Borrower Business Name IBANK Loan ID: IBANK Loan #

This Guarantee is a: Collection Guarantee This Guarantee is for a: Click to Select

In order to induce Lender Name ("Lender") to make a Loan to Borrower Business Name ("Borrower"), Click to Select ("Corporation"), in its capacity as a nonprofit California small business financial development corporation created pursuant to Title 1, Division 3, Part 5 (commencing with Section 14000) of the California Corporations Code, having offices at Click to Select, hereby guarantees to Lender, its successors and assigns, principal repayment of Guarantee Percentage Spelled-Out (Guarantee Percentage #%) of the below listed Loan between Lender and Borrower and the same percentage of post-default interest earned and unpaid, up to ninety (90) calendar days from the date of Default as defined in the Default Loan Procedures attached hereto. As used in this Loan Guarantee (this "Guarantee"), the term "Loan" means the Term Loan or Line of Credit as evidenced by a promissory note and credit agreement between Borrower and Lender dated Select Date for **$**Principal Amount **(**Principal Amount Spelled-Out**)** with the following rate and terms:

Interest Rate:	The interest rate is Interest Rate %, until Lender increases or decreases the interest rate based upon individual loan pricing and as may be changed from time to time by Lender.
Repayment Terms:	Payment beginning Select Date, with a payment plan as follows Click here to enter text. of approximately **$**Principal Amount **(**Principal Amount Spelled-Out**)**. Loan maturity is set for Select Maturity Date.

If this is a Collection Guarantee, the Corporation's obligations under this Collection Guarantee are subject to IBank's SBFC Directives and Requirements. Furthermore, the Corporation shall not be liable or obligated in any way beyond the available funds in the Program trust fund account, as defined in Section 14010 (n) of the California Corporations Code, at the time of Lender's Demand (as defined in IBank's SBFC Directives and Requirements).

Corporation has promised to pay up to Guarantee Percentage Spelled-Out **percent** (Guarantee Percentage #%) of principal and Interest Percentage Spelled-Out **percent** (Interest Percentage #%) of interest not to exceed ninety (90) days interest earned and unpaid on the loan, subject to the following restrictions:

a. Lender has complied with all material conditions contained in this Guarantee, including perfecting collateral; and

b. Lender has not engaged, and will not engage, in fraudulent or negligent practices in connection with the Borrower, this Guarantee, the Loan or the loan agreement.

Corporation's obligation to honor this Guarantee is conditioned upon the following:

1. Borrower is in Default as defined in the Default Loan Procedures attached hereto and incorporated herein by reference.
2. Lender's compliance with and performance of the Default Loan Procedures prior to demand for repayment.
3. Lender's compliance with and performance of the terms of the Commitment Letter attached hereto and incorporated herein by reference.
4. Diligent pursuit by Lender of Lender's remedies in the event of bankruptcy or other creditor rights proceedings prior to making demand on this Guarantee.

This Guarantee is effective upon execution of a loan to the Borrower and the signature of both parties to this Guarantee, the Commitment Letter, and Default Loan Procedures, and shall remain in effect until the Loan is paid in full or until Select Date, whichever occurs first but no longer than seven years from the date of the promissory note.

Lender shall not, without the prior written consent of IBank, renew, compromise, extend, accelerate or otherwise change the time for payment or the terms of Borrower's indebtedness, except in the case of a Default. In the case of Default, Lender shall make no agreement with the Borrower, except repayment of all past due amounts, or repayment of the entire Loan, without the prior written consent of IBank.

In the event that Lender makes a Demand on this Guarantee, Lender must assign all rights and remedies to Corporation in exchange for Corporation's payment on the defaulted Loan. "Rights and remedies" as used herein include the promissory note, Loan agreement, and all security agreements and other documents and security held by Lender in connection with the defaulted Loan.

The collateral listed in the Commitment Letter concerning this Loan shall be used to secure the entire Loan, with equal lien priority for the guaranteed and unguaranteed portions of the Loan. The unguaranteed portion of the Loan will not be paid first or given any preference or priority over the guaranteed portion.

Any payment on the indebtedness guaranteed to Lender by Corporation shall reduce, by the amount of such payment, Corporation's liability hereunder.

If the Borrower fails to pay, when due, all or any part of the Loan guaranteed by Corporation, Lender shall follow the Default Loan Procedures. A balloon payment does not constitute a default and, therefore, will not activate this Guarantee.

Lender shall make demand on the Borrower and pursue such rights as Lender has against

the Borrower short of filing suit to obtain payment in whole or in part. In any demand by Lender upon this Guarantee, Corporation shall have the right to reduce its liability under this Guarantee by the amount the Collateral (as defined in the SBFC Directives and Requirements) is reduced in value. Corporation is not entitled to reduce the Guarantee liability unless and until Corporation can demonstrate that the value of the Collateral was diminished because of Lender's failure to comply with the collateral requirements specified in the Commitment Letter.

Corporation shall be paid fees totaling **$**Total Fee Amount **(**Total Fee Amount Spelled-Out**)** consisting of a **$**Guarantee Fee Amount (Guarantee Fee Amount Spelled-Out) guarantee fee which represents **2.5%** of the guaranteed portion of the Loan and a **$250** (Two Hundred and Fifty and No/100 Dollars) loan documentation fee. Lender agrees to pay these fees at the time the Loan documents are signed, and forward the fees to Corporation immediately.

Any controversy or claim arising out of or relating to this Guarantee, or any agreements or instruments relating to or delivered in connection with this Guarantee, including any claim based on or arising from an alleged tort, shall be determined by binding and mandatory arbitration. The arbitration shall be conducted in accordance with the United States Arbitration Act (Title 9, U.S. Code) under the Commercial Rules or the American Arbitration Association ("AAA"). The arbitrator(s) shall give effect to statutes of limitation in determining any claim. Any controversy concerning whether an issue is arbitral shall be conclusively determined by the arbitrator(s). Judgment upon the arbitration award shall be entered in any competent court; which court would have had jurisdiction if the claim was not subject to binding arbitration. The institution and maintenance of an action for judicial relief or pursuit of a provisional or ancillary remedy shall not constitute a waiver of binding arbitration and mandatory arbitration if any other party contests such action for judicial relief

In any judicial action or proceeding arising out of or relating to this Guarantee or any agreements or instruments relating to this Guarantee or any agreements or instruments relating hereto or delivered in connection herewith, including but not limited to a tort claim, if the controversy or claim is not submitted to arbitration as provided and limited in the paragraph above, either party may elect to have all decisions of fact and law be determined by a reference in accordance with California Code of Civil Procedure Section 638 et seq. If such an election is made, the parties shall designate to the court a referee or referees selected under the auspices of the American Arbitration Association in the same manner as arbitrators are selected in Association-sponsored proceedings. The presiding referee of the panel, or the referee if there is a single referee, shall be an active attorney or retired judge. Judgment upon the award rendered by such referee or referees shall be entered in the court in which such proceeding was commenced in accordance with California Code of Civil Procedure Sections 644 and 645.

Lender, in the event of a Demand, and where the Borrower has given written permission as authorized by the Financial Privacy Act Notice, will allow a representative of the California Department of Business Oversight, or other auditors selected by the Corporation, to

examine the Lender's loan files.

In the event Lender and Corporation are unable to agree to one of the above listed alternatives prior to the expiration of this Guarantee, this Guarantee shall not be renewed or extended.

In the event of the filing of a voluntary or involuntary bankruptcy by or against the Borrower, Corporation and Lender agree to cooperate to reach decisions within the time frames required by the Bankruptcy Code and court. This would include decisions involving cash collateral orders, debtor-in-possession financing or attempts to modify the automatic stay to enable Corporation and Lender to realize on the Collateral. Corporation, upon payment under this Guarantee, shall be the owner of the claim against the estate for the purpose of making such decisions.

All notices required or permitted to be sent to Lender or Corporation shall be deemed to have been properly given if sent to the addresses set forth below or to such other addresses as the undersigned may designate by written notice to Lender and Corporation.

Corporation does hereby authorize and require Lender to fill in the blank space in this Guarantee by inserting the date of Lender's credit agreement.

Signed this ____ day of _____, ____	Signed this ____ day of _____, ____
Click to Select FDC	Auto-Fill
_____	_____
Signature	Signature
_____	_____
Print Name & Title	Print Name & Title

E. Default Loan Procedures

California Infrastructure and Economic Development Bank (IBank)
Small Business Finance Center (SBFC)
Small Business Loan Guarantee Program (SBLGP)

DEFAULT LOAN PROCEDURES

Issuing FDC: Choose an item.
Borrower Name Click here to enter text.
FDC IBank account # Click here to enter text.

In the event of a default on a guaranteed loan, the following Default Loan Procedures shall be used by Lender and Corporation pursuant to IBank's Small Business Finance Center (SBFC) Directives & Requirements.

I. Demand Procedures

(a) Lender shall be authorized to make a Demand (as that term is defined in the SBFC Directives and Requirements) upon the Corporation executing the Loan Guarantee (Guarantee) for repayment of the unpaid Loan principal and interest pursuant to the terms of the Guarantee, upon Lender's compliance with the following:

(1) Provide proof to Corporation that the Borrower is in Default under the applicable loan agreement (as that term is defined in the SBFC Directives and Requirements)

(2) Deliver to both the Borrower and Corporation a minimum of two letters subsequent to the Delinquency (as that term is defined in the SBFC Directives and Requirements), at least thirty (30) days apart, explaining the consequences for failure to remedy the Delinquency in a manner consistent with the applicable loan agreement. This requirement shall not apply if the Borrower is in bankruptcy.

(3) If the Guarantee is a Collection Guarantee, provide proof to Corporation that the Lender has complied with the liquidation requirements in the SBFC Directives and Requirements.

(b) Lender shall deliver to Corporation executing the Guarantee, a Demand Letter requesting immediate payment of the guaranteed portion of the allowable accrued and unpaid Loan interest and outstanding principal, and documenting compliance with subsection (a) and the applicable loan agreement.

(c) Within ten (10) business days of receipt of the Demand letter, Corporation shall contract with the California Department of Business Oversight or an independent auditor to conduct an investigation to determine whether Lender has complied with the terms of the Guarantee, and to issue a report to the Corporation. The report shall describe the findings of the investigation for each of the following issues:

(1) Whether the Loan agreement between the Borrower and Lender is consistent with the terms and conditions in the Guarantee.

(2) Whether all Collateral (as that term is defined in the SBFC Directives and Requirements) for the Loan and Guarantee have been perfected and maintained.

(3) Whether all Collateral is available for assignment to Corporation in the event that payment is made upon the Demand.

(4) Whether any Collateral is not available as a result of Lender's negligence, breach of contract, foreclosure or other cause.

(5) If the Guarantee is a Collection Guarantee, whether Lender has complied with the liquidation procedures in the SBFC Directives and Requirements.

(6) Calculation of the outstanding principal and interest owed.

(7) Whether Lender complied with the procedures for making a Demand as described in the SBFC Directives and Requirements.

(8) In a section entitled "Loan Information" the report shall include the following information obtained solely from a review of the Lender's files: a description of the Borrower's business, a description of the Collateral for the Loan, and a discussion as to whether the Lender's files contain any reference to matters material to Borrower's compliance with any environmental laws or regulations. The description of Collateral shall identify all real property Collateral as one or more of the following: industrial, commercial, agricultural, single family residence, multi-unit residential, vacant lot, unknown.

(9) A history of loan payments and collection efforts.

(d) Within ten (10) business days of receiving the California Department of Business Oversight or independent auditor's report, the Corporation shall do one of the following:

(1) Deliver to IBank a request for payment on the Demand, along with: a copy of the report described in subsection (c),), delinquency notification and liquidation efforts described in SBFC Directives and Requirements, a completed Request for Payment on a Demand form, and a calculation of the amount owed pursuant to the Guarantee; or

(2) Deliver to Lender, with a copy simultaneously delivered to IBank, a refusal to make payment pursuant to the Demand, and detailing the reasons for refusal.

(e) Within ten (10) business days from the date IBank receives the Request for Payment on a Demand form and a copy of the report described in subsection (c), IBank shall do one of the following and inform Corporation of such action:

(1) Deliver or cause to be delivered to Corporation a check in an amount not to exceed the amount contained in the Demand Letter, made payable to the Lender; or

(2) Deliver or cause to be delivered to the Corporation a denial of the request for payment to Corporation based upon noncompliance with the requirements of applicable law, regulations, rules or guidelines, the Guarantee and Default Loan Procedures, or fraud or negligence on the part of Lender.

(3) Deliver or cause to be delivered to Corporation a statement that the investigation or report was incomplete, and requiring Corporation to complete the investigation and report and resubmit the request for payment to IBank within ten (10) business days from the date the statement is received by Corporation.

(f) The amount paid to Lender pursuant to a Demand Letter shall be less than the amount contained in the Demand Letter only under the following circumstances:

(1) The Demand contains an incorrect calculation of the amount owing;

(2) The amount owing on the Loan has been reduced by subsequent payments from the Borrower to Lender;

(3) Lender has engaged in fraudulent activities pertaining to the Loan; or

(4) The Loan and/or the Guarantee is not in compliance with the requirements of applicable law, regulations, rules or guidelines or the SBFC Directives and Requirements; or

(5) The report identifies fraud or negligence on the part of Lender

(g) Within five business days of receiving the check from or on behalf of IBank, Corporation shall contact Lender and arrange to deliver the check to Lender. Corporation shall deliver the check and simultaneously collect an assignment by Lender of the Lender's interest in the Loan. The assignment shall include the Loan Note and all Collateral, except as provided in II. Collection Requirements.

(h) The Guarantee shall include a provision for binding arbitration in the event that either Corporation or IBank denies the requested Demand pursuant to subsections (d)(2) or (e)(2), or the amount paid to Lender is less than the amount contained in the Demand Letter.

(i) Demand must be made by Lender upon Corporation no later than noon on the ninetieth calendar day (90 days) following the date on which the Guarantee terminates; provided, however, that if the ninetieth day is not a day upon which the Corporation is open for business, the last day for making a Demand shall occur on the next succeeding day upon which the Corporation is open for business.

II. Collection Requirements for Collection Guarantees (as that term is defined in the SBFC Directives and Requirements)

(a) Lender shall not be authorized to file a Demand for a Collection Guarantee unless it has complied with this section. The requirements contained in this section are in addition to the requirements contained in section I. Demand Procedures.

(b) Lender must liquidate all Collateral, but shall not be required to file a lawsuit against any Borrower or guarantor. "Liquidate" as used in this paragraph means that Lender has exhausted all Collateral by one of the following methods:

(1) converted the Collateral into cash;

(2) demonstrated, to the satisfaction of Corporation that the Collateral is without sufficient value to convert to cash; or

(3) demonstrated that the Borrower has filed for bankruptcy.

Signed this ____ day of _____, ____

Lender Name

_____
Signature

Click here to enter text.
Print Name & Title

F. Instructions for the Request for Payment on Defaulted Guarantee

This section provides instructions for FDCs on how to complete the SBLGP Request for Payment on Defaulted Guarantee which is the primary form needed from FDCs to make a demand on a defaulted loan guaranteed under the SBLGP. FDCs should always check IBank's website for the most current version, which can be found at: http://www.ibank.ca.gov/small-business-finance-center/financial-development-corporations/

General Information Section

IBank

California Small Business Loan Guarantee Program (SBLGP)
State Small Business Credit Initiative (SSBCI)

REQUEST FOR PAYMENT ON DEFAULTED GUARANTEE

General Information			
Date			
FDC Name			
FDC Contact Name & Phone #			
Lender Name			
Borrower Business Name			
FDC IBank Loan #			
Original Loan or LOC Amount		Guarantee % (as decimal)	0.0000%

Field:	Information Needed:
▪ Date	✓ Date default payment form is completed.
▪ FDC Name	✓ Name of FDC submitting the default payment request.
▪ FDC Contact Name & Phone #	✓ Name and phone number of FDC representative IBank can contact with questions about the default.
▪ Lender Name	✓ Name of lender of defaulted loan.
▪ Borrower Business Name	✓ Name of business with defaulted loan.
▪ FDC IBank Loan #	✓ Unique IBank loan number associated with the borrower's loan. ➢ This is **not** the lender's loan number.
▪ Original Loan or Line-of-Credit Amount	✓ List the original loan or line-of-credit amount.
▪ Guarantee %	✓ List the original guarantee percentage.

Default Calculation Section

Default Calculation			
Outstanding Principal Balance		As of:	
Liquidated Collateral Amount (if applicable)		Adjusted Principal Amount (= Outstanding Principal Balance – Liquidation)	$ 0.00
Interest Rate (Enter as decimal)	0.0000%	Accrued Interest Amount	$ 0.00
Interest from/to Dates (90 days or less)	to	# of Days Interest (max. 90 days)	90
OR Interest from/to Dates (if over 90 days enter dates here)	to		

Field:	Information Needed:
▪ Outstanding Principal Balance	✓ List the outstanding principal amount at the time of default.
▪ As of:	✓ Enter the date that corresponds to the outstanding principal balance.
▪ Liquidated Collateral Amount (if applicable)	✓ List the amount of any collateral the lender was able to convert into cash.
▪ Adjusted Principal Amount	✓ The adjusted principal amount is the amount after deducting any cash recovered from the liquidation of collateral. ➢ Adjusted Principal Amount = Outstanding Principal Balance – Liquidated Collateral Amount.
▪ Interest Rate	✓ Enter the interest rate for the loan or line-of-credit.
▪ Accrued Interest Amount	✓ Enter the accrued interest amount (maximum **90 days**)
▪ Interest from/to Dates	✓ List the date range for the accrued interest amount. ➢ The maximum number of days of interest guaranteed is 90 days.
▪ # of Days Interest (**max. 90 days**)	✓ List the number of days of interest. ➢ The maximum number of days of interest guaranteed is 90 days. This field should equal the "Interest from/to Dates" data.

Guarantee Amount Requested Section

Guarantee Amount Requested	
Guaranteed Principal Amount (= Adjusted Principal Amount x Guarantee %)	$ 0.00
Interest Amount Due (=Principal at Default X Interest Rate: Not to exceed 90 days) X Guarantee %	$ 0.00
Total Guarantee Payment Amount Requested	$ 0.00

Field:	Information Needed:
▪ Guaranteed Principal Amount	✓ If approved, this is the principal amount IBank will pay the lender for the defaulted loan.

	➢ Guaranteed Principal Amount = Adjusted Principal Amount x Guarantee %.
▪ Interest Amount Due	✓ If approved, this is the interest amount IBank will pay the lender for the defaulted loan. ➢ Earned and unpaid not to exceed **90 days**; reduced by the guarantee percentage
▪ Total Guarantee Payment Amount Requested	✓ If approved, this is the amount IBank will pay the lender for the defaulted loan.

G. Instructions for the Default Recovery Report

This section provides instructions for FDCs on how to complete the SBLGP Default Recovery Report which must initially be submitted with the Request for Payment on Defaulted Guarantee Form. The report should also be used to report quarterly default recovery updates, and final recovery efforts to IBank. If there is no activity for the quarter, submit a nil report.

FDCs should always check IBank's website for the most current version: http://www.ibank.ca.gov/small-business-finance-center/financial-development-corporations/

General Information Section

IBank **California Small Business Loan Guarantee Program (SBLGP)**
State Small Business Credit Initiative (SSBCI)

QUARTERLY DEFAULT RECOVERY REPORT

Borrower Business Name:

This is a (check one): ☐ **Initial Report:** **FDC IBank Loan #:**
☐ **Final Report:** ☐ **Additional Report:**

Field:	Information Needed:
▪ Borrower Business Name	✓ Name of business with defaulted loan.
▪ FDC IBank Loan #	✓ Unique IBank loan number associated with the borrower's loan. ➢ This is **not** the lender's loan number.
▪ This is a (check one): ○ Initial Report ○ Additional Report ○ Final Report	✓ Check one report type as follows: ○ Initial Report: This is the first default recovery report filed for the delinquent guaranteed loan. • Must be submitted to IBank with the "Request for Payment on Defaulted Guarantee" Form. ○ Additional Report: This is for each subsequent default recovery report filed quarterly.

	○ Final Report: This is the final default recovery report submitted when the FDC determines no further recoveries are likely.

Borrower Business Information Section

Borrower Business Information			
Business Owner(s) Name			
Business Phone #			
Is the business still in operation?		☐ Yes	☐ No
Is the FDC attempting restructured payments?		☐ Yes	☐ No
Is the FDC attempting to liquidate the business' assets?		☐ Yes	☐ No
Date legal action commenced:	By whom:		

Field:	Information Needed:
▪ Business Owner(s) Name	✓ Name(s) of all business owners.
▪ Business Phone #	✓ Business phone number.
▪ Is the business still in operation?	✓ Indicate whether the business is still in operation.
▪ Is the FDC attempting restructured payments?	✓ Indicate whether the FDC is attempting restructured payments.
▪ Is the FDC attempting to liquidate the business' assets?	✓ Indicate whether the FDC is in the process of liquidating the business' assets.
▪ Date legal action commenced: ▪ By whom:	✓ State the date legal action against the business began and who initiated the legal action.

Lender Information Section

Lender Information	
Lender Name	
Lender Contact Name & Phone #	

Field:	Information Needed:
▪ Lender Name	✓ Name of lender of defaulted loan.
▪ Lender Contact Name & Phone #	✓ Name and phone number of lender representative IBank can contact with questions about the default.

Default Payment to Lender Information Section

Default Payment to Lender Information			
Principal Amount:		Interest Amount:	
Total Payout Amount:		Date Paid:	

This section is only applicable for default recovery reporting for the **Quarterly** Report and **Final** Report.	
Field:	**Information Needed:**
▪ Principal Amount	✓ Enter the principal amount at the time of the default.
▪ Interest Amount	✓ Enter the interest amount at the time of the default.
▪ Total Payout Amount	✓ Enter the total amount IBank paid for the defaulted guarantee.
▪ Date Paid	✓ Enter the date the FDC forwarded the IBank check to the lender.

Post Default Payment Recovery Information Section

Post Default Payment Recovery Information Only Applicable for Quarterly Report & Final Report!			
Recovery Amount this Quarter:		Cumulative Recovery Amount:	
Recovery Expenses this Quarter:		Cumulative Recovery Expenses:	
Net Recovery Amount this Quarter:		Cumulative Net Recovery Amount:	

This section is only applicable for default recovery reporting for the **Quarterly** Report and **Final** Report.	
Field:	**Information Needed:**
▪ Recovery Amount this Quarter	✓ Indicate the recovery amount for this reporting quarter.
▪ Recovery Expenses this Quarter	✓ Indicate the amount of recovery expenses incurred by the FDC during this reporting quarter.
▪ Net Recovery Amount this Quarter	✓ Indicate the net recovery amount (recovery amount – recovery expenses) for this reporting quarter.
▪ Cumulative Recovery Amount	✓ Indicate the cumulative recovery amount since the start of FDC recovery efforts.
▪ Cumulative Recovery Expenses	✓ Indicate the cumulative recovery expense amount since the start of FDC recovery efforts.
▪ Cumulative Net Recovery Amount	✓ Indicate the cumulative net recovery amount (cumulative recovery amount – cumulative recovery expenses) since the start of FDC recovery efforts.

Collateral Information Section

Collateral Information				
	Lender Estimated Liquidation Value	Type of Asset	Asset in Possession of	If Asset is in FDC's Possession
Asset A			☐ Borrower ☐ FDC	Liquidation Value: Asset Location: Itemized Description: Liquidation Effort:
Asset B			☐ Borrower ☐ FDC	Liquidation Value: Asset Location: Itemized Description: Liquidation Effort:
Additional Recovery Efforts				

Field:	Information Needed:
▪ Lender Estimated Liquidation Value	✓ State the liquidation value of the collateral as estimated by the lender at the time the loan was made.
▪ Type of Asset	✓ State the type of the asset (i.e. restaurant furniture, kitchen equipment, or delivery van make/model/year)
▪ Asset in Possession of	✓ Indicate if the asset is currently in possession of the borrower or the FDC.
▪ If Asset is in FDC's Possession ○ Liquidation Value ○ Asset Location ○ Itemized Description ○ Liquidation Effort	✓ This is only applicable if the asset is in the FDC's possession. ○ State the amount FDC expects to recuperate from the sale of the asset. ○ Provide the address of where the asset is stored. ○ Detail the items in this asset category (i.e. for restaurant furniture, the itemized description would be 20 tables, 50 chairs, etc.) ○ State what efforts the FDC is currently undertaking to liquidate the assets (i.e. advertise for sale)
▪ Additional Recovery Efforts	✓ Describe any additional recovery efforts in progress or planned by the FDC.

Expected Problems with Securing Recovery Section

Expected Problems with Securing Recovery Only Applicable for Initial Report!	
Description of Problems	
Bankruptcy? ☐ Yes ☐ No	**If Bankruptcy:** State Filing Date: Chapter: Disposition:

This section is only applicable for default recovery reporting for the **Initial** Report.

Field:	Information Needed:
▪ Description of Problems	✓ Summarize potential problems FDC expects with its collateral recovery efforts.
▪ Bankruptcy?	✓ Indicate whether the business has filed for bankruptcy.
▪ If Bankruptcy: ○ State Filing Date ○ Chapter ○ Disposition	✓ This is only applicable if the business has filed for bankruptcy. ○ Select the bankruptcy filing date with the State. ○ State whether the bankruptcy is filed as a Chapter 7, 11, or 13. ○ Summarize the bankruptcy disposition.

FDC Reasons for Ending Recovery Attempts Section

FDC Reasons for Ending Recovery Attempts Only Applicable for Final Report!	
Description of Reasons:	

This section is only applicable for default recovery reporting for the **Final** Report.

Field:	Information Needed:
▪ Description of Reasons	✓ Describe reasons for FDC to terminate recovery attempts on the default.

IX. STATUTE AND DIRECTIVES

A. IBank SBLGP Directives & Requirements

CURRENT TEXT OF IBANK SMALL BUSINESS FINANCE CENTER DIRECTIVES & REQUIREMENTS (Revised October 24, 2017).

§ 5000 Definitions

The following Directives and Requirements are adopted as of October 24, 2017 pursuant to the Small Business Financial Assistance Act of 2013 (California Government Code 63088, and California Corporations Code Sections 14000 and following) (Law) to amend and restate the Directives and Requirements adopted by the California Infrastructure and Economic Development Bank (IBank) Board of Directors (IBank Board) on September 27, 2016. These Directives and Requirements may apply to future programs or financing products, or new Directives and Requirements that may be recommended by the Small Business Finance Center and adopted by the IBank Board. In the event of any inconsistency between these Directives and Requirements and the Law, the provisions of the Law shall govern. To the extent that the Law is changed subsequent to the date of the adoption of these Directives and Requirements, these Directives and Requirements shall be deemed amended to bring them into conformity with the Law.

These definitions are subject to the following rules of construction: (i) all references to Sections shall be to these Directives and Requirements unless otherwise specified, (ii) the use of examples or the words "including" or "includes" are deemed to be followed by "without limitation" whether or not such is in fact written, (iii) except where context requires otherwise, the word "or" is used in the inclusive sense and (iv) words defined in the singular include the plural versions of such words . The following definitions supplement those provided by the Law and shall govern the construction of these Directives and Requirements:

"Administrative Cost Policy Manual" means IBank's Small Business Finance Center's Administrative Cost Policy Manual, as it may be amended from time to time.

"**Agriculture-Related Enterprise**" means a business which is dedicated primarily to providing goods and services to a Farm Enterprise.

"**Allocation**" has the meaning assigned to such term in Section 5022(c)(1).

"**Allocation Agreement**" means a written Allocation, Grant and Servicing Agreement entered into by and between IBank and a Jump Start Corporation in connection with the Jump Start Loan Program in accordance with Section 5022.

"Application" means all of the information required by a Lender or Surety to determine whether to offer a Borrower a Loan, a Disaster Relief Borrower a Loan, or a Principal a Bond.

"Authorized Farm Costs" means the costs incurred by a Farm, including:

Operating and production expenses, including the purchase, construction or repair of buildings, machinery, equipment and storage and drying facilities, the purchase of animals, seed and fertilizer, the purchase of real estate and the costs of improvement or repairs thereto.

Costs associated with the purchase of real estate, including easements and rights-of-way to establish or enlarge a Farm.

Costs associated with water development, soil conservation, forestation, drainage, pollution abatement and related measures.

Disaster losses including actual losses incurred in connection with disaster damaged or destroyed farm property or production enterprises, or both, including annual operating and production expenses, construction and improvement of buildings and facilities, and land and water development.

Refinancing debt including the costs associated with the issuance of such debt and lender fees and charges, where the debt to be refinanced was incurred for Authorized Farm Costs. No costs set forth in this clause shall be authorized unless the Farm Lender shall certify that, in the Farm Lender's opinion, sufficient collateral or cash flow exists to reasonably preclude the chance of loan losses.

"Authorized Jump Start Costs" means the costs incurred by a Jump Start Borrower, including, but not limited to, business start-up costs, specific operating and production expenses, including the purchase, leasing, construction or repair of land, buildings, machinery and equipment, tenant improvements and the Jump Start Loan fees authorized by Section 5028. Working capital will not be an Authorized Jump Start Cost.

"Bond" means an obligation in writing concerning the construction or service work of Principal, binding the Surety to pay certain sums upon the occurrence of specified events connected to the payment of sums due by the Principal pursuant to a payment bond, and the obligation to complete the construction or service work, pursuant to a performance bond.

"Bond Guarantee" means a Guarantee which promises the payment of all or a portion of a Claim.

"Bond Line" means a specified amount and term of Bond Guarantee authority which Principal is authorized to apply against any Bond with a specified Surety during the term of the Bond Line.

"Borrower" means an eligible business which has received a commitment for a Loan, or has prepared an Application. To be an "eligible business, the business must be either:

A "Small Business" as defined in part 121 of chapter 1 of title 13 of the Code of Federal Regulations as amended;

A Farm Enterprise; or

A non-profit public benefit organization or social welfare organization that has received and maintains tax exempt status under the IRS code 501(c)3 or 501(c)4.

"Claim" means a request for payment by a Surety made to a Corporation because of Surety's Loss under a Bond or ILOC secured by a Guarantee, pursuant to Section 5009 or 5012.

"Collateral" means those personal and business assets of the Borrower, Disaster Relief Borrower or Principal and guarantor subject to a lien under the Loan or Bond.

"Collection Guarantee" means a guarantee of a specified percentage of the outstanding Loan principal and ninety (90) days of interest, reduced by any proceeds of the Lender's Liquidation of Collateral as required under Section 5004. A Collection Guarantee will be paid to the Lender only after the Lender has liquidated or made all reasonable efforts in good faith to liquidate all Collateral as required under Section 5004. The total payment made to a Lender under a Collection Guarantee will be the difference between the specified percentage of Loan principal outstanding and ninety (90) days accrued and unpaid interest on the same percentage of the Loan as the Guarantee, and all cash proceeds generated by the Lender in connection with its Liquidation activities required under Section 5004.

"Corporation" means any nonprofit California small business financial development corporation created pursuant to this chapter, or pursuant to Chapter 1 (commencing with Section 32000) of Division 15.5 of the Financial Code.

"Corporate Contract" means a contract executed exclusively between IBank and any individual Corporation.

"Default" means either a Delinquency which has not been cured within ninety (90) days, or that the Borrower or Disaster Relief Borrower is in bankruptcy.

"Delinquency" means the failure of the Borrower or Disaster Relief Borrower to make any payment when due, pursuant to the terms of the Loan, except for any principal payment due at the maturity of the Loan.

"Demand" means a request for payment by a Lender to a Corporation pursuant to Section 5003 or by a Surety to a Corporation pursuant to Section 5012.

"Disaster Area" means an area affected by a state of emergency within California and declared a disaster by the President of the United States, the Administrator of the United States Small Business Administration, or the United States Secretary of Agriculture, or declared to be in a State of Emergency by the Governor of the State of California.

"Disaster Relief Borrower" means an eligible Borrower located in a Disaster Area that has received a commitment for a Loan, or has prepared an Application. To be an eligible Disaster Relief Borrower, the Borrower must (a) have suffered Significant Actual Physical Damage to real or personal property and/or have suffered Significant Economic Injury, as a result of a disaster in a Disaster Area, and (b) be a "Small Business" as defined in part 121 of chapter 1 of title 13 of the Code of Federal Regulations, as amended, including, but not limited to a "Small Business" that is a Farm Enterprise, an Agriculture-Related Enterprise, and/or a Nursery Enterprise.

“Disaster Relief Program” has the meaning assigned to such term in Section 5030(a).

“Executive Director” means the executive director of the California Infrastructure and Economic Development Bank.

“Encumbrance” means a Corporation's outstanding Guarantee balance. The effective date is the date of the executed Guarantee agreement or the date of the promissory note, whichever is last, provided that the guarantee is approved by IBank before both the date of the guarantee and the promissory note.

The Guarantee balance is calculated as follows:

For a Term Loan, the Guarantee balance initially is calculated as the original loan amount times the Guarantee percentage, until fully disbursed, then the calculation is the outstanding loan balance times the Guarantee percentage as the outstanding loan balance reduces.

For a Line of Credit Loan or Revolver Loan, the Guarantee balance is calculated as the full amount of the line times the Guarantee percentage.

“Farm” means a business which is primarily engaged in producing crops, livestock products or aquatic organisms through the utilization and management of land, water, labor, capital and basic materials including seed, feed, fertilizer and fuel.

“Farm Borrower” means a Farm which has applied for, or which has entered into, a Farm Borrower Agreement.

“Farm Borrower Agreement” means a written loan agreement whereby the Farm Lender agrees to lend funds to the Farm Borrower to finance Authorized Farm Costs, and which includes at a minimum: a note, security agreement and loan agreement each consistent with commercial practices and containing the following:

A list of Farm Borrower security for the Farm Borrower Loan and plans for at least an annual accounting for security.

The Authorized Farm Costs for which loan funds shall be used.

The interest rate, which shall not exceed five percent (5%) above the prime rate listed in the western edition of the Wall Street Journal on the date of the loan commitment.

The term, which shall not exceed seven years, except for a Guaranteed Farm Borrower Loan. The term of a Guaranteed Farm Borrower Loan shall not exceed that authorized by USDA. The aggregate outstanding balance of loans with a remaining term to maturity in excess of eighty-four (84) months shall not comprise more than twenty-five percent (25%) of the Farm Lender's trust fund account assets.

The loan amount, which shall not exceed the maximum amount allowed by the USDA Farm Service Agency Guaranteed Farm Loan Program.

Default and Liquidation provisions which shall comply with Sections 5016 and 5017, respectively.

Fees pursuant to Section 5020.

"Farm Borrower Loan" means a Term Loan or Line of Credit Loan from a Farm Lender to a Farm Borrower pursuant to a Farm Borrower Agreement. At least ninety percent (90%) of Farm Borrower Loans funded from the trust fund account, calculated by dollar amount, must be guaranteed by the USDA. In determining the percentage, the numerator is the loan amount for outstanding Guaranteed Farm Borrower Loans, and the denominator is the loan amount of all outstanding Farm Borrower Loans.

"Farm Enterprise" means the business of producing crops, livestock products and aquatic organisms through the utilization and management of land, water, labor, capital, and basic raw materials including seed, feed, fertilizer, and fuel.

"Farm Lender" means a Corporation that has been approved by the USDA as a lender.

"Farm Lender Credit Agreement" means a written agreement whereby IBank agrees to lend funds to Farm Lender, for the purpose of funding Farm Borrower Loan(s). The Farm Lender Credit Agreement may be a Master Agreement, and will include provisions that require the Farm Lender to request disbursement of loan proceeds from IBank only after the Farm Borrower Loan(s) and respective Farm Borrower Agreement(s) have been approved and are in effect. The Farm Lender Credit Agreement will also include provisions covering the following:

Security. No funds shall be disbursed except to fund a previously approved Farm Borrower Agreement assigned as security to the Farm Lender Credit Agreement. As used in this subsection "assigned as security" means:

For a Guaranteed Farm Borrower Loan, that IBank is the Holder, or the guaranteed portion has been sold at par value and the proceeds have been deposited in the trust fund account from which the funds originated.

For a Nonguaranteed Farm Borrower Loan, the Farm Lender Credit Agreement is secured by assignment of all notes, security agreements and similar instruments contained in the Farm Borrower Agreement.

The loan amount, which shall not exceed the total amount of Farm Borrower Loans authorized for the Farm Lender by the Director.

The interest rate, which shall be two percent (2%) below the prime rate listed in the western edition of Wall Street Journal for each respective day for which funds are owed to IBank.

Repayment terms, which shall be based upon the repayment terms in the Farm Borrower Agreement(s) funded with proceeds from the Farm Lender Credit Agreement.

"Farm Lender Disbursement Request" means a signed request for disbursement of trust funds under an existing Farm Lender Credit Agreement made in writing to IBank by a Farm Lender in compliance with Section 5013.

"Farm Loan Guarantee" means a signed commitment, issued by the USDA, to guarantee payment of all or part of a Farm Borrower Loan.

"FDC Policy Manual" means IBank's Small Business Finance Center's Financial Development Corporation Policy Manual for the Small Business Loan Guarantee Program and the Jump Start Loan Program, as it may be amended from time to time.

"Full Time Equivalent" (FTE) means the number of full time, part time or other basis employees of a business and its affiliates, in which the employee wages are paid directly from the business, as determined by IRS Federal hourly calculation criteria.

"Guarantee" means a written agreement to warrant the repayment of a portion of a Loan or payment of all or a portion of a guarantee payment request. Every Guarantee of a Loan shall be either a Collection Guarantee or Loan Guarantee.

"Guaranteed Farm Borrower Loan" means a Farm Borrower Loan which is in whole or part subject to the Guarantee.

"Holder" means the person or entity purchasing or assigned a percentage of a loan, other than the Lender who purchases all or part of the Loan.

"IBank" means the California Infrastructure and Economic Development Bank.

"ILOC" means an irrevocable letter of credit issued by a Corporation as Collateral for a Bond and which complies with the requirements set forth in Section 5011.

"Jump Start Borrower" means a Borrower located in a Low-Wealth Community or a Disaster Area which has applied to a Jump Start Corporation for a Jump Start Loan, or which has entered into a Jump Start Borrower Agreement.

"Jump Start Borrower Agreement" means written loan documentation whereby funds allocated to a Jump Start Corporation pursuant to an Allocation Agreement shall be loaned to the Jump Start Borrower to finance Authorized Jump Start Costs, and which includes at a minimum: a note, loan agreement and security instrument, each consistent with commercial practices and containing the following:

The Jump Start Loan amount, which shall not exceed Ten Thousand Dollars ($10,000.00) or be less than Five Hundred Dollars ($500.00).

A description of the Authorized Jump Start Costs for which loan funds shall be used.

The interest rate, which shall not exceed five percent (5%) above the prime rate listed in the western edition of the Wall Street Journal on the date of the Jump Start Loan commitment.

The term, which shall not exceed five (5) years.

The amortization schedule; no balloon payments will be permissible.

Default and Liquidation provisions which shall comply with Sections 5026 and 5027, respectively.

Fees pursuant to Section 5028.

"Jump Start Corporation" means any Corporation that (a) is licensed by and in good standing with the California Department of Business Oversight as an industrial development corporation or is a community development financial institution or community development entity certified by and in good standing with the Community Development Financial Institutions Fund of the United States Department of the Treasury and (b) has entered into an Allocation Agreement with IBank that is in full force and affect.

"Jump Start Grant" has the meaning assigned to such term in Section 5023.

"Jump Start Loan" means a Term Loan to a Jump Start Borrower pursuant to a Jump Start Borrower Agreement.

"Jump Start Program" has the meaning assigned to such term in Section 5022(a).

"Law" means the Small Business Financial Assistance Act of 2013 (California Government Code Section 63088 and following and California Corporations Code Sections 14000 and following) or other applicable law.

"Lender" means a banking organization, including national banks and trust companies and state chartered commercial banks, savings and loan associations, credit unions, state insurance companies, mutual insurance companies, certified community development financial institutions, microbusiness lender and other banking, lending, retirement, and insurance organizations, authorized to conduct business in California.

"Leverage" means the calculation where the numerator is the Encumbrance and the denominator is the trust fund account balance.

"Line of Credit Loan" means a Loan, usually structured as interest only, for a term not to exceed seven years, except for a Farm Enterprise Loan which shall have a term not to exceed the term of the current Farm Borrower Agreement, where the minimum repayment is usually structured as interest only during the term of the loan.

"Liquidation" means the exercise of rights provided for in the event of any Default under the Guarantee, a Farm Borrower Agreement or the related Farm Lender Credit Agreement, or a Jump Start Borrower Agreement, including the right to foreclose in accordance with the terms of any financing statement, security interest or similar instrument obtained or entered into in relation to such Guarantee, Farm Borrower Agreement, Farm Lender Credit Agreement or Jump Start Borrower Agreement.

"Loan" means a loan extended by a Lender to a Borrower or a Disaster Relief Borrower, which is guaranteed pursuant to Section 5002, and which is a Term Loan, a Micro Loan, a Line of Credit Loan, or a Revolver Loan.

"Loan Guarantee" means a Guarantee of a specified percentage of Loan principal and up to ninety (90) days earned and unpaid interest at the same percentage.

"Loss" means any net monetary damages incurred by a Surety arising out of a Claim, or in pursuing the Surety's rights under the indemnity agreement. As used in this subsection, "net monetary damages" means loss payments, completion costs, reasonable attorney's fees, and reasonable out of pocket consultant fees, costs, and expenses, minus amounts recovered by the Surety from any source, including Collateral. The determination of such loss will take into account amounts recovered, but exclude reinsurance. As used herein, "indemnity agreement" means the written agreement whereby Principal agrees to reimburse Surety for any Loss.

"**Low-Wealth Community**" means a community located in both (a) a county within California with a per capita personal income equal to or less than 115% of the statewide average per capita income as determined by the State of California's Employment Development Department (EDD) from time to time and (b) a city or unincorporated area within such county with an unemployment rate equal to or greater than the statewide average unemployment rate as determined by the EDD; provided that any community that does not have a designated unemployment rate from the EDD will satisfy this requirement if the county in which the community is located has an unemployment rate equal to or greater than the statewide average unemployment rate as determined by the EDD.

"Master Agreement" means a contract executed between IBank and one or more Corporations to implement the operating provisions of any of the programs established under the Law.

"Micro Loan" means a Loan in which the principal amount does not exceed One Hundred Thousand dollars ($100,000).

"Nonguaranteed Farm Borrower Loan" means a Farm Borrower Loan not subject to a Guarantee.

"Nursery Enterprise" means the business of producing root stock, seedlings, or juvenile or immature non-animal agricultural, horticultural, and landscaping products for the purposes of sale to a third party for use in the production of crops, including both feed crops and table crops, environmental horticulture, ornamental horticulture, or landscaping.

"Principal" means an eligible business which has received a commitment for a Bond. To be an eligible business, the business must be a "Small Business" as defined in Part 121 of Chapter 1 of Title 13 of the Code of Federal Regulations, as amended from time to time.

"Program Manager" means the manager of the California Small Business Finance Center as designated to this title by the Executive Director.

"Revolver Loan" means a Line of Credit Loan which converts to a Term Loan after a specified time indicated in the loan agreement.

"Significant Actual Physical Damage" means damage to a Disaster Relief Borrower's real or personal property caused by a disaster in a Disaster Area resulting in a fair market value replacement or repair cost which cannot be funded by the Disaster Relief Borrower's unencumbered, and readily

available, cash on hand without the Disaster Relief Borrower incurring further significant economic hardship.

"Significant Economic Injury" means a monetary loss to a Disaster Relief Borrower caused as a direct result of a disaster in a Disaster Area which the Disaster Relief Borrower cannot remedy using unencumbered, and readily available, cash on hand without suffering further significant economic hardship.

"Surety" means an insurance company licensed by the California Department of Insurance, and authorized to conduct business in California.

"Suspension" means that a Corporation is no longer registered with the Secretary of State as a small business development corporation and shall not enjoy any of the benefits of a small business development corporation.

"Term Loan" means a Loan that usually has regularly scheduled reductions in principal balance.

"USDA" means the United States Department of Agriculture.

§ 5001 Guarantee Procedures

The Lender applying for a Guarantee shall provide a completed Borrower application to the Corporation for review and processing in accordance with the following procedures:

(a) No Guarantee shall be executed by a Corporation until the proposed Guarantee has been reviewed by the Corporation's loan committee and approved by its Board of Directors, unless the Corporation's Board of Directors has delegated the authority to approve a proposed Guarantee to the Corporation's loan committee, and such delegation is in accordance with IBank policy referenced in the Corporate Contract. No Guarantee shall be approved or executed by a Corporation if the Lender is the same entity as the Corporation or an affiliate of the Corporation or Lender.

(b) Upon completion of the review and approval by the Corporation's loan committee and/or Board of Directors, the Corporation shall issue a commitment to Guarantee and execute a Guarantee to the Lender.

(c) In the event that a Guarantee is issued to a Lender without first complying with the requirements of subsection (a), and the Lender relies upon the Guarantee in making the Loan, the failure by the Corporation to so comply shall not constitute a defense on the part of either IBank or the Corporation to paying a Demand for payment made pursuant to Section 5003.

(d) In any case where funds are disbursed to a Lender pursuant to a Demand and the Corporation has failed to comply with subsection (a), IBank may immediately exercise all available legal remedies to recover from the Corporation the funds disbursed pursuant to the Demand.

§ 5002 Guarantee Terms

(a) Following adoption of a resolution by its board of directors, a Corporation shall be authorized to issue a commitment specifying the conditions under which it will issue a Guarantee to a Lender for a specified Loan.

(b) The terms and conditions of a Guarantee shall be consistent with the resolution of the Corporation approving the Guarantee and shall include all of the following:

(1) The Corporation's promise to pay up to eighty percent (80%) of the outstanding principal, and accrued yet unpaid interest up to 90 days at the same guarantee percentage, on a Loan in which the Guarantee is approved in accordance with IBank policy referenced in the Corporate Contract, subject to the following restrictions:

(A) The Lender has complied with all material conditions contained in the Guarantee, including perfecting Collateral; and

(B) The Lender has not engaged, and will not engage, in fraudulent or negligent practices in connection with the Borrower, Guarantee, the Loan or the related loan agreement.

(2) The duration of a Guarantee shall not exceed seven (7) years, except for a Line of Credit Loan to a Farm Enterprise, where the duration of a Guarantee shall not exceed the term of the current Farm Borrower Agreement and in no event seven (7) years.

(3) A Corporation shall not waive a fee or charge more or less than the amount determined by the Corporate Contract. The Corporation shall not charge an annual servicing fee on loan guarantees. The Corporation shall be authorized to charge the following Loan Guarantee fees in accordance with the Corporate Contract:

(A) A Loan Guarantee documentation fee of $250.00.

(B) A Loan Guarantee fee not to exceed three percent (3%) of the principal amount guaranteed. The Executive Director will set the fee percentage at the time of the Corporate Contract execution and may not change the fee percentage more than twice in each fiscal year.

(4) A description of the procedures and the responsibilities of the Lender and Corporation subsequent to Default.

(5) Section 5003 Demand procedures.

(6) Agreement to abide by binding arbitration by the American Arbitration Association in the event that either the Corporation or IBank denies the requested Demand pursuant to Section 5003(d)(2) or (e)(2), or the amount paid to the Lender is less than the amount contained in the Demand Letter.

(9) Acknowledgment by the Lender that in the event of a Demand, the Lender will allow a bank examiner at the California Department of Business Oversight, or other independent auditor selected by the Corporation, to examine the Lender's Loan files.

(10) A designation as to whether the Guarantee is a Collection Guarantee or Loan Guarantee.

(11) A statement that the maximum amount of interest to be paid is accrued and unpaid, not to exceed ninety (90) calendar days at the guaranteed percentage.

(12) The maximum Guarantee amount for any business is $2,500,000.00. The maximum Loan amount for any business is $20,000,000.00, unless specific written approval is obtained from the Executive Director for a larger loan amount.

(13) The small business receiving the loan guaranteed under the SBLGP, a direct loan, or a bond guarantee, must create or retain at least one Full Time Equivalent (FTE) employee as a result of the Loan. This minimal Directive and Requirement is in lieu of a preferred ratio guideline since IBank encourages program participation of single owner operator businesses.

(14) The owner(s) of the business receiving a Loan guaranteed under the SBLGP, a direct loan, or a bond guarantee, shall have at least $1.00 of equity interest in the business at the time of the Loan. This minimal Directive and Requirement is intended to promote those businesses that may be under-capitalized yet have been deemed credit worthy, due to its other attributes, by a Lender.

§ 5003 Guarantee Demand Procedures

(a) The Lender shall be authorized to make a Demand upon the Corporation executing the Guarantee for repayment of the unpaid Loan principal and interest pursuant to the terms of the Guarantee, upon compliance with the following:

(1) Providing proof to the Corporation that the Borrower is in Default under the applicable loan agreement and Lender has delivered to both the Borrower and the Corporation a minimum of two letters subsequent to the Delinquency, at least thirty (30) days apart, explaining the consequences for failure to remedy the Delinquency in a manner consistent with the applicable loan agreement. This requirement shall not apply if the Borrower is in bankruptcy.

(2) If the Guarantee is a Collection Guarantee, providing proof to the Corporation that the Lender has complied with the liquidation requirements of Section 5004.

(b) The Lender shall deliver to the Corporation executing the Guarantee a Demand Letter requesting immediate payment of the guaranteed portion of the allowable accrued and unpaid Loan interest and outstanding principal, and documenting compliance with subsection (a) and the applicable loan agreement.

(c) Within ten (10) business days of receipt of the Demand letter, the Corporation shall contract with the California Department of Business Oversight or an independent auditor to conduct an investigation to determine whether the Lender has complied with the terms of the Guarantee, and to issue a report to

the Corporation. The report shall describe the findings of the investigation for each of the following issues:

(1) Whether the Loan agreement between the Borrower and Lender is consistent with the terms and conditions in the Guarantee.

(2) Whether all Collateral for the Loan and Guarantee have been perfected and maintained.

(3) Whether all Collateral is available for assignment to the Corporation in the event that payment is made upon the Demand.

(4) Whether any Collateral is not available as a result of Lender's negligence, breach of contract, foreclosure or other cause.

(5) If the Guarantee is a Collection Guarantee, whether the Lender has complied with the liquidation procedures of Section 5004.

(6) Calculation on the outstanding principal and interest owed.

(7) Whether the Lender complied with the procedures for making a Demand under Section 5003(b).

(8) In a section entitled “Loan Information” the report shall include the following information obtained solely from a review of Lender files: a description of the Borrower's business, a description of the Collateral for the Loan, and a discussion as to whether the Lender files contain any reference to matters material to Borrower's compliance with any environmental laws or regulations. The description of Collateral shall identify all real property Collateral as one or more of the following: industrial, commercial, agricultural, single family residence, multi-unit residential, vacant lot, unknown.

(9) A history of loan payments and collection efforts.

(d) Within ten (10) business days of receiving the California Department of Business Oversight or independent auditor's report, the Corporation shall do one of the following:

(1) Deliver to IBank a request for payment on the Demand, along with: a copy of the report described in subsection (c), delinquency notification and liquidation efforts described in subsection (a), the Demand, and a calculation of the amount owed pursuant to the Guarantee; or

(2) Deliver to the Lender, with a copy simultaneously delivered to IBank, a refusal to make payment pursuant to the Demand, and detailing the reasons for refusal.

(e) Within ten (10) business days from the date IBank receives the request for payment on the Demand and a copy of the report described in subsection (c), IBank shall do one of the following and inform the Corporation of such action:

(1) Deliver or cause to be delivered to the Corporation a check in an amount not to exceed the amount contained in the Demand Letter, made payable to the Lender; or

(2) Deliver or cause to be delivered to the Corporation a denial of the request for payment to the Corporation based upon noncompliance with the requirements of applicable law, regulations, rules or guidelines, these Directives and Requirements or fraud or negligence on the part of the Lender.

(3) Deliver or cause to be delivered to the Corporation a statement that the investigation or report was incomplete, and requiring the Corporation to complete the investigation and report and resubmit the request for payment to IBank within ten (10) business days from the date the statement is received by the Corporation.

(f) The amount paid to the Lender pursuant to a Demand Letter shall be less than the amount contained in the Demand Letter only under the following circumstances:

(1) The Demand contains an incorrect calculation of the amount owing;

(2) The amount owing on the Loan has been reduced by subsequent payments from the Borrower to the Lender;

(3) The Lender has engaged in fraudulent activities pertaining to the Loan; or

(4) The Loan and/or the Guarantee is not in compliance with the requirements of applicable law, regulations, rules or guidelines or these Directives and Requirements; or

(5) The report identifies fraud or negligence on the part of the Lender

(g) Within five business days of receiving the check from or on behalf of IBank, the Corporation shall contact the Lender and arrange to deliver the check to the Lender. The Corporation shall deliver the check and simultaneously collect an assignment by the Lender of the Lender's interest in the Loan. The assignment shall include the Loan Note and all Collateral, except as provided in Section 5004.

(h) The Guarantee shall include a provision for binding arbitration in the event that either the Corporation or IBank denies the requested Demand pursuant to subsections (d)(2) or (e)(2), or the amount paid to the Lender is less than the amount contained in the Demand Letter.

(i) Demand must be made upon the Corporation no later than noon on the ninetieth calendar day following the date on which the Guarantee terminates; provided, however, that if the ninetieth day is not a day upon which the Corporation is open for business, the last day for making a Demand shall occur on the next succeeding day upon which the Corporation is open for business.

§ 5004 Guarantee Collection Requirements for Collection Guarantees

(a) A Lender shall not be authorized to file a Demand for a Collection Guarantee unless it has complied with this Section. The requirements contained in this Section are in addition to the requirements contained in Section 5003.

(b) The Lender must liquidate all Collateral, but shall not be required to file a lawsuit against any Borrower or guarantor. “Liquidate” as used in this paragraph means that the Lender has exhausted all Collateral by one of the following methods:

(1) converted the Collateral into cash;

(2) demonstrated, to the satisfaction of the Corporation, that the Collateral is without sufficient value to convert to cash; or

(3) demonstrated that the Borrower has filed for bankruptcy.

§ 5005 Corporation Requirements

The following Directives and Requirements are in addition to Corporation requirements of Corporations Code Section 14000 et seq., and the Small Business Financial Assistance Act of 2013:

A Corporation in existence less than 5 years shall adhere to the same Laws and Directives and Requirements as Corporations in existence for more than 5 years, except for a probationary period as indicated in Corporations Code Section 14012.

A Corporation is to maintain a default rate of less than 5% of all of its outstanding guarantees.

A Corporation must enroll at least one federally supported guarantee, or in the absence of federal funds under the program, one state fund supported guarantee per fiscal year.

A Corporation must provide all documents related to the Small Business Finance Center programs that are requested from time to time by the Executive Director by the deadline specified by the Executive Director.

§ 5006 Additional Clarifications

(a) The return on funds from investments may be used for program purposes, including administrative expenses of IBank and/or the Corporations, at the Executive Director’s discretion.

(b) The Executive Director or Program Manager may create a trust fund account to be shared by multiple Corporations (pooled account) for program uses. The designation of an individual trust fund or a shared trust fund account will be determined by the Executive Director or Program Manager and written in the Corporate Contract.

(c) In the event of suspension or termination of a Corporation the funds of a Corporation’s trust fund account may be transferred to reside in the expansion fund. Use of the principal on the funds shall be governed by the same use of funds in Government Code Section 63089.5(b). Since it is the intent to pool the trust fund, it is unlikely a Corporation’s trust fund would reside in the expansion fund. If this were to occur, the fund would be used for previously established purposes.

(d) Corporations shall adhere to the State Small Business Credit Initiative (SSBCI) rules and guidance when supporting a guarantee with SSBCI federal funds. The rules and guidance include, but are not limited to the following resources; the Small Business Jobs Act of 2010, the SSBCI Allocation Agreement for Participating States dated February 17, 2011 between the United States Department of the Treasury and the State of California, as amended from time to time, SSBCI Policy Guidance, National Standards for Compliance and Oversight, the SSBCI F.A.Q’s, and the FDC Policy Manual.

§ 5007 SURETY BONDS GUARANTEE

(a) A Principal shall be authorized to apply to a Corporation for either a Bond Guarantee, or a Bond Line.

(b) A Principal applying for a Bond Guarantee or a Bond Line shall provide a complete Application to the Corporation for review and processing in accordance with the following procedures:

(1) The proposed Guarantee has been reviewed by the Corporation's Bond loan committee and approved by its board of directors.

(2) Upon compliance with subsection (b)(1), the Corporation shall issue a commitment to provide a Bond Guarantee or Bond Line and an executed Bond Guarantee or Bond Line to the Surety.

(3) In the event that a Guarantee is issued to a Surety without first complying with the requirements of subsections (b)(1) and/or (c), and the Surety relies upon the Guarantee in issuing the Bond, the failure by the Corporation to so comply shall not constitute a defense on the part of either IBank or the Corporation to paying a Claim.

(4) In any case where funds are disbursed to a Surety pursuant to a Claim and the Corporation has failed to comply with subsections (b)(1) and/or (c), IBank may immediately exercise all available legal remedies to recover from the Corporation the funds disbursed pursuant to the Claim.

(c) Any change to a Bond Guarantee or Bond Line that amends the terms contained in the resolution by the Corporation’s board of directors approving the Guarantee must be approved by the Corporation board of directors.

§ 5008 SURETY BOND TERMS

The terms and conditions of a Bond Guarantee or Bond Line shall be consistent with the resolution of the Corporation approving the Bond Guarantee or Bond Line and shall include all of the following:

(a) The Corporation’s promise to pay Losses up to ninety percent (90%) of the Bond, not to exceed five hundred thousand dollars ($500,000), subject only to the restriction that the Surety has not engaged in negligence, misrepresentation, fraud, or material breach of the terms of the Guarantee in writing, issuing, or servicing the Bond.

(b) The Guarantee shall expire two hundred and ten days (210) following final payment by the party requiring the Bond (Obligee) of all amounts owed to Principal pursuant to the contract bonded, so long as no notice of claims has been received by Surety and is pending as of that expiration date. In the event that a notice of claim is pending as of that expiration date, the Guarantee shall remain in effect until resolution of that claim.

(c) A Corporation Bond Guarantee fee not to exceed three percent (3%) of the Guarantee amount. In the case of a Bond Line, the fee shall be charged for each Guarantee.

(d) The terms and conditions of the Bond subject to a Guarantee which shall be in accord with those generally established and accepted by the Surety for the type of contract for which the Bond is required.

(e) A statement that Surety would not provide the Bond without the Guarantee.

(f) Consistent with Surety's underwriting and claims handling procedures, Surety shall take all reasonable action necessary to minimize risk of Loss, including but not limited to the taking of Collateral and obtaining personal guarantees, and Surety will pursue all possible sources of recovery.

(g) If any suit is filed against Surety upon the Bond, Surety shall immediately inform Corporation of receipt of notice thereof and shall take charge of all suits or claims arising under the Bond and compromise, settle or defend such suit or claim. Surety shall take all steps necessary to mitigate the Loss resulting from Principal's default. Surety shall not join Corporation in any lawsuit to which Surety is a party unless Corporation has denied a Claim.

(h) Liability of the Corporation under the Guarantee shall be reduced if the Guarantee requires Surety to take Collateral, and Surety fails to obtain and perfect the Collateral. In the event that the Surety fails to take or perfect Collateral required by the terms of the Guarantee, the liability of the Corporation pursuant to the Guarantee shall be reduced by the Guarantee percentage of the amount which could reasonably have been recovered by liquidating the Collateral.

(i) The terms of the Guarantee shall not be waived, changed or altered unless both Corporation and Surety's authorized representative have signed and dated assent thereto.

(j) Corporation shall have access to and the right to audit and inspect any and all documents maintained by the Surety related to the Bond. The audit shall be conducted in a reasonable manner during business hours or as otherwise agreed upon between Corporation and Surety.

(k) The Guarantee is made exclusively for the benefit of Corporation and Surety and does not confer any rights or benefits to any other party. In the event of the Surety's insolvency, Corporation shall not be liable to the receiver or trustee of the insolvent estate except for any Loss.

(l) In the case of a Bond Line, the document shall also specify the following:

(1) The Bond Line shall only apply to Bonds issued by the identified Surety, to the specified Principal.

(2) No Bond shall be guaranteed under the Bond Line if that Bond is dated either before the effective date of the Bond Line, or later than 365 days following the effective date of the Bond Line.

(3) The Bond Line shall specify the guarantee percentage for the Guarantees issued under the Bond Line.

(4) The Bond Line shall specify the maximum Guarantee authority, which shall not exceed $500,000. The combined Guarantee liability of all Bonds outstanding for a specific Principal shall not exceed $1,000,000. A Principal with a Bond Line shall obtain a Guarantee under the Line by sending a copy of the Bond to the Corporation, which shall sign and attach to the Bond a statement that the Bond is guaranteed by the Corporation pursuant to the terms of the Bond Line. This statement shall be signed so long as the Principal and Bond comply with the terms of the Bond Line.

(5) It shall be the responsibility of the Surety to notify the Corporation when a Guarantee under a Bond Line has expired.

§ 5009 SURETY BOND PROCEDURES

a) Surety shall be entitled to reimbursement for the percentage of its Loss covered by the Guarantee, adjusted pro rata for payments received by Surety from any other source, excluding reinsurance, upon compliance with the following:

(1) Surety shall notify Corporation in writing within forty-five (45) days after the end of each calendar quarter after the Surety has established a claim reserve on the Claim.

(2) Ninety (90) days after notice to Corporation that the claim reserve has been established and every thirty (30) days thereafter, unless mutually agreed upon otherwise, Surety shall provide Corporation with the current status of the Claim, including salvage prospects, and proof of payment by Surety of the Claim. Claim reporting can be on Corporation's Current Status Report form or Surety's equivalent.

(3) Surety shall invoice the Corporation quarterly for any Loss, except that Surety shall be authorized to invoice the Corporation monthly for a Loss in excess of five thousand dollars ($5,000). Corporation shall submit for payment to IBank within twenty (20) days of receipt, any invoice received from a Surety for a Loss that complies with the requirements of this article.

(b) After payment has been made by Corporation to Surety pursuant to (a) above, if any net amount is recovered by Surety from any other source, excluding reinsurance, Corporation is entitled to the Guarantee percentage of said net amount upon actual receipt by the Surety. Subrogation efforts shall be discontinued by Surety only after providing Corporation with written documentation substantiating insolvency or the inability to pay on the part of Principal or others who agreed to indemnify the Surety, unless otherwise mutually agreed by the Surety and Corporation. In the event of discontinuation of subrogation efforts by Surety, the Surety will assign all of its right, title and interest to recovery to the Corporation.

§ 5010 ILOC AS BOND COLLATERAL PROCEDURES

A Principal shall be authorized to apply to a Corporation for an ILOC. A Principal applying for an ILOC shall provide a completed Application to the Corporation for review and processing in accordance with the following procedures:

(a) The proposed ILOC has been reviewed by the Corporation's Bond loan committee and approved by its board of directors.

(b) Upon compliance with subsection (a), the Corporation shall issue an ILOC commitment and an executed ILOC to the Surety.

(c) In the event that an ILOC is issued to a Surety without first complying with the requirements of subsection (a) and/or (e), and the Surety relies upon the ILOC in issuing the Bond, the failure by the Corporation to so comply shall not constitute a defense on the part of either IBank or the Corporation to paying a Demand.

(d) In any case where funds are disbursed to a Surety pursuant to a Demand and the Corporation has failed to comply with subsections (a) and/or (e), IBank may immediately exercise all available legal remedies to recover from the Corporation the funds disbursed pursuant to the Demand.

(e) Any change to a Bond Guarantee or Bond Line must be approved by the Corporation board of directors if the change amends the terms contained in the resolution by the Corporation board of directors approving the Guarantee.

§ 5011 ILOC AS BOND COLLATERAL TERMS

The terms and conditions of an ILOC shall be consistent with the resolution of the Corporation approving the ILOC and shall include all of the following:

(a) Provision that the Corporation promises to pay a specified amount to Surety upon Surety establishing a claim reserve.

(b) The maximum amount of the ILOC shall be 15% of the contract amount, not to exceed $350,000.

(c) Where the Bond is for a public works project, a statement that the ILOC shall expire one hundred and twenty (120) days following receipt by Surety of a statement from the party requiring the Bond ("Obligee") that the work has been completed and fully accepted and that Obligee has made payment of all amounts owed the Principal pursuant to the Bond. The ILOC shall expire only if no notice of Claim is pending with the Surety. If the Bond is for other than a public works project, then the Corporation and Surety shall include in the ILOC what events and timing trigger expiration of the Guarantee.

(d) The Corporation fee not to exceed three percent of the ILOC amount.

(e) The terms and conditions of the Bond collateralized by the ILOC shall be in accord with those generally established and accepted by the Surety for the type of contract for which the Bond is required.

(f) A statement that Surety would not provide the Bond without the ILOC.

(g) Surety shall not join Corporation in any lawsuit to which Surety is a party unless Corporation has denied a Demand.

(h) The terms of the ILOC shall not be waived, changed or altered unless both Corporation and Surety's authorized representative have signed and dated assent thereto.

(i) Corporation shall have access to and the right to audit and inspect any and all documents related to the Bond. The audit shall be conducted in a reasonable manner during business hours or as otherwise agreed upon between Corporation and Surety.

(j) The ILOC is made exclusively for the benefit of Corporation and Surety and does not confer any rights or benefits to any other party. In the event of the Surety's insolvency, Corporation shall not be liable to the receiver or trustee of the insolvent estate except for any Loss.

§ 5012 ILOC AS BOND COLLATERAL DEMAND PROCEDURES

(a) Upon the establishment of a claim reserve connected to the Bond, Surety shall be authorized to make Demand upon the Corporation for an amount equal to the Loss incurred, and reasonably expected to be incurred within the next sixty (60) calendar days by the Surety.

(b) Demand shall be made in writing, and shall include a statement that a Claim reserve has been established, shall explain why the Claim reserve has been established, and shall specify the amount of the Demand.

(c) Corporation shall mail to Surety, not later than ten (10) calendar days from receipt of Demand, either the amount included in the Demand or an explanation of why the amount requested in the Demand will not be paid by the Corporation. The only reasons for refusing to pay the amount included in the Demand are:

(1) No Claim reserve has been established for the Bond covered by the ILOC.

(2) The amount requested in the Demand lacks reasonable supporting documentation.

(d) After payment has been made by a Corporation, if any net amount is recovered by Surety from any other source, excluding reinsurance, Corporation is entitled, upon actual receipt by the Surety, to the percentage of said net amount which equals the ILOC funds paid as a percentage of Loss paid by the Corporation. Subrogation efforts shall be discontinued by Surety only after providing Corporation with written documentation substantiating insolvency or the inability to pay on the part of Principal or others who agreed to indemnify the Surety, unless otherwise mutually agreed by the Surety and Corporation. In the event of discontinuation of subrogation efforts by Surety, the Surety will assign all of its right, title and interest to recovery to the Corporation.

§ 5013 DISBURSEMENT OF FARM LENDER LOAN FUNDS

(a) No Farm Borrower Agreement shall be executed by a Corporation until the proposed Farm Borrower Loan has been reviewed by the Corporation's loan committee and approved by its board of directors, unless the Corporation's board of directors has delegated the authority to approve a proposed Farm Borrower Loan to the Corporation's loan committee. Approval of the Farm Borrower Loan shall be evidenced by adoption of a corporate resolution approving the loan. The Corporation shall retain the resolution and the minutes of loan committee and board of directors' meetings at which the loan was discussed and approved, including any conditions placed on the loan.

(b) Disbursement of loan proceeds to the Farm Lender for Farm Borrower Loans will be made only if the Farm Lender is a party in good standing to an existing Farm Lender Credit Agreement.

(c) Within ten (10) business days of receiving a Farm Lender Disbursement Request for a previously approved Farm Borrower Loan, IBank shall notify the Farm Lender of disbursement approval, provided:

(1) Funds are available in a trust fund account to meet the request contained in the Farm Lender Disbursement Request. The available fund for direct loans is no more than twenty percent (20%) of the aggregate trust fund(s) available for State lending programs in the Small Business Guarantee Loan Program.

(2) The disbursement is in connection with an executed Farm Borrower Agreement.

(3) The disbursement request is consistent with the funding requirements of the related Farm Borrower Agreement. Evidence of the consistency consists of a budget showing amounts previously disbursed to the Farm Lender in connection with such Farm Borrower Loan, amount of loan proceeds lent by the Farm Lender to the Farm Borrower, and the date upon which it is projected that the money to be disbursed pursuant to this Section shall be lent by the Farm Lender to the Farm Borrower.

(d) IBank will set aside the original principal amount of the loan request, minus any disbursements, in the trust fund as its commitment to future disbursements. Funds will be released back to the trust fund as the balance of the loan decreases.

(e) In any case where funds are disbursed to a Corporation pursuant to a Farm Lender Disbursement Request and the Corporation has failed to comply with subsection (a), IBank may immediately exercise all available legal remedies to recover from the Corporation the funds disbursed pursuant to the Farmer Lender Disbursement Request.

§ 5014 RELEASE OF FARM LOAN FUNDS

(a) Farm Lender shall lend funds received pursuant to a Farm Lender Credit Agreement to a Farm Borrower only upon compliance with the following conditions precedent:

(1) For a Nonguaranteed Farm Borrower Loan, or for a Guaranteed Farm Borrower with a loan that cannot be legally assigned or sold, assignment to IBank of the Farm Borrower Agreement note, together with an assignment of any financing statement, security interest or similar instrument obtained or entered into pursuant to the related Farm Borrower Agreement, perfected by a UCC-1 public notice.

(2) For a Guaranteed Farm Borrower Loan:

A Guarantee has been executed, and either assigned to IBank or sold pursuant to Section 5018, and

A certification by the Farm Lender that it has complied with or has taken all actions which are in its opinion necessary to comply with any conditions precedent to the issuance of such Guarantee required by USDA; provided, however, that for the purposes of this Section, payment of funds to the Farm Borrower shall not be deemed to be such a condition.

(b) Farm Lender shall provide evidence of compliance with subsection (a) to IBank within seven (7) days of disbursement of funds to a Farm Borrower.

§ 5015 FARM LOAN ACCOUNTING AND REPORTING

Lender shall establish an account which shall be used solely to record disbursements and repayments for Farm Borrower Loans and Farm Lender Loans. The account shall have separate sub-ledgers which shall correspond to each specific Farm Lender Credit Agreement and Farm Borrower Agreement. Funds shall only be withdrawn from Farm Lender Credit Agreement sub-ledgers for subsequent payment to a Farm Borrower, for payments to the trust fund account or upon written authorization of IBank. Funds shall only be withdrawn from Farm Borrower Agreement sub-ledgers for payments to the trust fund account, to the Holder or upon written authorization of IBank.

(b) The Farm Lender shall reconcile the two sets of sub-ledgers monthly. One set shall consist of all activities for each Farm Borrower Loan, including payment and repayment information. Farm Lender shall maintain these reconciliations at its principal place of business. The second reconciliation shall consist of all Farm Lender Loan activity. Farm Lender shall submit these reconciliations to IBank monthly.

(c) All records established and maintained in connection with the account and its sub-ledgers shall be available upon reasonable notice for audit by IBank or its designee, and shall be maintained for a three (3) year period following the expiration of the related Farm Lender Credit Agreement or Farm Borrower Agreement

§ 5016 FARM LOAN DEFAULTS

(a) A Default of a Farm Borrower Agreement shall be a default of outstanding trust fund account funds under the related Farm Lender Credit Agreement. Farm Lender shall provide IBank with written notice that a Default has occurred within fourteen (14) days of either failure by the Farm Borrower to make payment at loan maturity or filing for bankruptcy by Farm Borrower.

(b) With respect to a Default on a Guaranteed Farm Borrower Loans, the procedures to be followed by a Farm Lender shall be those specified by USDA. If no such procedures exist, the procedures specified in subsection (c) hereof shall apply.

(c) With respect to a Default on a Nonguaranteed Farm Borrower Loans, the procedures to be followed by a Farm Lender shall be set forth in the Farm Borrower Agreement and the related Farm Lender Credit Agreement, and shall include the following:

A meeting shall be arranged by the Farm Lender with the Farm Borrower upon occurrence of a Default to resolve the problem. Actions taken by the Farm Lender may include, the following:

Deferment of principal payments

An additional temporary loan by the Farm Lender to bring the account current

Re-amortization of or rescheduling the payments on the loan

Reorganization

Subsequent loan guarantees

Changes in the interest rate, upon approval of IBank

(2) The Farm Lender shall negotiate in good faith in an attempt to resolve any problem to permit the Farm Borrower to cure a Default; provided that, in the opinion of the Farm Lender, the proposed resolution is economically feasible.

(3) If, within ninety (90) days following receipt by IBank of the notice provided for in subsection (a), the Farm Lender is unable to resolve to its satisfaction any Default, then Farm Lender shall institute Liquidation proceedings.

§ 5017 FARM LOAN LIQUIDATION

(a) With respect to Guaranteed Farm Borrower Loans, Liquidation shall follow the procedures required by USDA; provided, however, that any reports made to USDA in connection with such Liquidation shall also be given to IBank. If no such procedures exist or apply, the procedures specified in subsection (b) shall apply.

(b) With respect to Liquidation of a Nonguaranteed Farm Borrower Loan, a Liquidation plan shall be prepared by the Farm Lender and delivered to IBank. The Liquidation plan shall specify the steps Farm Lender intends to take for Liquidation of the Farm Borrower Loan, including proposed costs. Unless the Farm Borrower receives written objections to the Liquidation plan from IBank within fourteen days of submitting the plan to IBank, the plan shall be deemed approved by IBank. In the event Farm Lender receives a written objection to the plan from IBank within the fourteen days, IBank and Farm Lender shall negotiate a mutually acceptable Liquidation plan.

(c) Liquidation recoveries made in connection with Nonguaranteed Farm Borrower Loans shall be applied in the following order of priority.

(1) To pay Liquidation costs approved by IBank.

(2) To pay accrued interest and late fees.

(3) To pay principal.

(4) To pay fees owed to the Farm Lender, pursuant to Section 5020.

(d) With respect to Liquidation in connection with either Guaranteed or Nonguaranteed Farm Borrower Loans, the Farm Lender shall not initiate any judicial remedy without the prior written approval of IBank.

§ 5018 SALE OF THE GUARANTEED PORTION OF THE FARM BORROWER LOAN

Farm Lender is authorized to negotiate the sale of the guaranteed portion of the Farm Borrower Loan, if allowed by law, together with the Guarantee, to third parties. The sale shall result in the receipt by the Farm Lender of a sum no less than the outstanding balance owed on the guaranteed portion of the Farm Borrower Loan being sold. The Farm Lender shall deposit the funds received into the trust fund account from which the loan funds were disbursed.

§ 5019 FARM LOAN PAYMENTS

(a) Payments received from repayment of a Farm Borrower Loan shall be allocated to Farm Lender, trust fund account and, if applicable Holder, based upon the percentage ownership of the Farm Borrower Loan. As an illustrative example, if the Holder owns ninety percent (90%) and the trust fund account owns the remaining ten percent (10%), then the principal and interest payments are divided 90/10, except that the portion of the interest owed the trust fund account shall be based upon the Farm Lender Credit Agreement interest rate (two points below prime) and not the Farm Borrower Agreement (five points above prime). Payment shall be received by the trust fund account and if applicable Holder within forty-five (45) days of the Farm Lender receiving the funds from Farm Borrower.

(b) IBank shall periodically audit Farm Lender's calculation of interest and principal owed under Farm Lender Credit Agreement, and send written notice to Farm Lender specifying any error in the calculation, and the amount of the discrepancy. If the letter specifies that Farm Lender owes additional funds, Farm Lender shall pay funds to the appropriate trust fund account within seven days of receiving the letter from IBank. If the letter specifies that Farm Lender paid more than was owed, Farm Lender shall apply the overpayment to the next payment due to IBank.

(c) Any sum disbursed to the Farm Lender pursuant to Section 5013 and not lent to Farm Borrower within six (6) months from the date of such disbursement shall be repaid by Farm Lender within five (5) working days of notification by IBank, and the Farm Lender shall have no further rights with respect to such funds.

§ 5020 FARM LOAN []23-

The Farm Lender shall be authorized to charge the Farm Borrower a fee of three percent (3%) of the amount of the Farm Borrower Loan, in addition to the current fee required to be paid to USDA on any Guaranteed Farm Borrower Loan. In the event of a loan to a Nonguaranteed Farm Loan Borrower, the fee shall not exceed that specified in Government Code Section 63089.67.

§ 5021 SECONDARY MARKET FOR GUARANTEE LOANS

(a) The Lender shall have the option of retaining all of the Loan. If the Lender desires to assign or participate all or a portion of the guaranteed portion of the Loan at or subsequent to Loan closing, the Loan must not be in Default. The Lender is not permitted to assign or participate any amount of the guaranteed or unguaranteed portions of the Loan to any of the following:

(1) the Borrower, or member of the immediate family of the Borrower, their officers, directors, stockholders, other owners or any parent, subsidiary or affiliate;

(2) a Corporation or any employee or a member of the Board of Directors of a Corporation or

(3) any employee of IBank.

(b) The Lender may assign all or part of the guaranteed portion of the Loan to one or more Holders, except that the Lender is required to retain a minimum of ten percent (10%) of the Loan amount, and the Lender shall retain the responsibility for servicing the Loan.

(c) The Lender shall notify the Corporation of the assignment no later than forty-five (45) days following the assignment. No later than fifteen (15) days following the notification provided by the Lender, the Corporation shall register the assignment by completing and submitting the Assignment Registration Form (Form CTCA-047, new, 1998) to IBank. No later than thirty (30) days following the submission of the Assignment Registration Form, IBank shall notify the Lender and Holder of the registration.

(d) The Assignment Registration Form shall consist of the items listed below:

(1) The date of assignment or participation.

(2) The Loan number.

(3) A description of the Loan including: whether the Loan is a credit agreement or a promissory note, the date the Loan was executed, and the name of the Borrower.

(4) The outstanding balance of the Loan.

(5) The percent of Guarantee assigned to the Holder.

(6) A certification that the Loan is not in Default and not a pending Default.

(7) A certification that Holder complies with the requirements described in subsections (a)(1) through (a)(3).

(8) The Holder's contact person, mailing address, telephone number, and if available facsimile number and e-mail address.

(9) The Lender's contact person, mailing address, telephone number, and if available facsimile number and e-mail address.

(10) The titles and dated signatures of the Lender, the Holder, and the Corporation.

(e) When a guaranteed portion of a Loan is sold by the Lender to a Holder, the Holder shall succeed to all rights of Lender under the Guarantee in proportion to the amount of the Loan purchased. The Lender shall remain bound to all the obligations under the Guarantee.

(f) The Lender shall be responsible for servicing the entire Loan, and shall remain the secured party of record. The entire Loan shall be secured by the same security with equal lien priority for the guaranteed and unguaranteed portions of the Loan.

(g) The Guarantee and right to issue a Demand will be directly enforceable by Holder notwithstanding any fraud or misrepresentation by Lender or any unenforceability of the Guarantee by Lender, unless Holder has actual knowledge of said fraud, misrepresentation or unenforceability of the Guarantee prior to purchase. Notwithstanding the provisions of Section 5003(a), the Holder shall be authorized to make Demand upon the Lender, with a copy sent to the Corporation, when any payment owed pursuant to the Loan is sixty (60) days in arrears, and the Holder shall be under no obligation to delay Demand pending liquidation of Collateral if the Loan is a Collection Guarantee. If Holder has not received a response with thirty (30) days agreeing to purchase the guaranteed portion of the Loan, the Holder shall be authorized to send a Demand to the Corporation. It shall be the responsibility of the Corporation to verify the Demand figures provided by the Holder with the Lender. In any dispute the Lender Demand figures shall be used. The Holder shall be entitled to receive interest on the unpaid portion of the guaranteed portion of the Loan until the Demand payoff is mailed to the Holder.

(h) Nothing contained herein shall constitute any waiver by IBank or the Corporation of any rights they possess against the Lender, and the Lender agrees that it will be liable and will promptly reimburse the trust fund for any payment made by IBank to Holder which, if such Lender had held the Guaranteed portion of the Loan, IBank would not be required to make.

§ 5022 JUMP START LOAN PROGRAM

(a) The purpose of the Jump Start Loan Program (Jump Start Program) is to provide loans from five hundred dollars ($500) to ten thousand dollars ($10,000) and financial literacy and technical assistance to start-ups and established small businesses in Low-Wealth Communities and in Disaster Areas.

(b) IBank may enter into an Allocation Agreement with a Jump Start Corporation that is in furtherance of the purposes of the Jump Start Program pursuant to Section 5022(a).

(c) The Allocation Agreement shall include, without limitation, all of the following provisions:

(1) an allocation of funds by IBank to the Jump Start Corporation in an aggregate amount not to exceed One Hundred Thousand Dollars ($100,000) (Allocation) to be used to make Jump Start Loans to Jump Start Borrowers pursuant to the terms and requirements of the Allocation Agreement;
(2) IBank's agreement to provide the Jump Start Grant pursuant to Section 5023;
(3) standard credit underwriting criteria;
(4) standard loan disbursement processes;
(5) standard servicing policies and procedures; and
(6) the financial literacy training and technical assistance the Jump Start Corporation will provide to the Jump Start Borrowers.

(d) The Allocation shall not be used by the Jump Start Corporation for any administrative, training or technical assistance costs or expenses.

(e) Investment income earned on the Allocation shall be used only to make Jump Start Loans pursuant to the Allocation Agreement.

(f) Interest earned on Jump Start Loans may be used to pay the administrative costs of IBank and the Jump Start Corporation in accordance with the Allocation Agreement, the FDC Policy Manual and the Administrative Cost Policy Manual.

§ 5023 JUMP START GRANT

IBank shall provide each Jump Start Corporation with a Jump Start grant in an aggregate amount not to exceed One Hundred Thousand Dollars ($100,000) (Jump Start Grant) to be used to compensate the Jump Start Corporation for its allowable administrative, financial literacy training and technical assistance costs and expenses in accordance with the terms and requirements of the Administrative Cost Policy Manual.

§ 5024 APPROVAL OF JUMP START LOAN

(a) No Jump Start Borrower Agreement shall be executed by a Jump Start Corporation nor any Allocation disbursed to a proposed Jump Start Borrower until the proposed Jump Start Loan has been reviewed and approved by the Jump Start Corporation's Board of Directors, unless the Jump Start Corporation's board of directors has delegated the authority to approve a proposed Jump Start Loan to the Corporation's loan committee, executive director and/or chief credit officer and such loan committee, executive director and/or chief credit officer has approved the proposed Jump Start Loan.

(b) In any case where a Jump Start Corporation has failed to comply with Section 5024(a), IBank may immediately exercise all available legal remedies to recover from the Jump Start Corporation the funds disbursed.

§ 5025 RELEASE OF JUMP START FUNDS

(a) A Jump Start Corporation shall not approve the disbursement of any Allocation funds to a Jump Start Borrower until the proposed Jump Start Borrower has executed and delivered to the Jump Start Corporation the following documents:

(i) a Jump Start Borrower Agreement,

(ii) a note payable to the order of IBank in a principal amount not to exceed Ten Thousand Dollars ($10,000.00) or be in an amount less than Five Hundred Dollars ($500.00), and

(iii) a security or collateral agreement or similar instrument, if any, required by the Jump Start Borrower Agreement.

(b) The Jump Start Corporation shall provide pursuant to the FDC Policy Manual evidence of compliance with subsection (a) to IBank within seven (7) days of disbursement of Allocation funds to a Jump Start Borrower.

§ 5026 JUMP START LOAN DEFAULTS

(a) The Jump Start Corporation shall provide IBank with written notice that a Default under the Jump Start Loan Agreement has occurred within fourteen (14) days after the occurrence of any such Default.

(b) The Default procedures to be followed by a Jump Start Corporation shall be set forth in the Jump Start Borrower Agreement and the Allocation Agreement and shall include the following:

(i) A meeting shall be arranged by the Jump Start Corporation with the Jump Start Borrower upon occurrence of a Default to resolve the problem. Actions taken by the Jump Start Corporation may include, but are not limited to, with the written approval of IBank, the following:

Deferment of principal payments,

Re-amortization of or rescheduling the payments on the loan,

Reorganization,

Additional collateral,

Changes in the interest rate,

(2) The Jump Start Corporation shall negotiate in good faith in an attempt to resolve any problem to permit the Jump Start Borrower to cure a Default; provided that, in the opinion of the Jump Start Corporation, the proposed resolution is economically feasible.

(3) If, within thirty (30) days following receipt by IBank of the notice provided for in subsection (a), the Jump Start Corporation is unable to resolve to IBank's satisfaction any Default, then the Jump Start Corporation shall institute Liquidation proceedings as set forth in Section 5027 and the FDC Policy Manual.

§ 5027 JUMP START LOAN LIQUIDATION

(a) A Liquidation plan shall be prepared by the Jump Start Corporation and delivered to IBank. The Liquidation plan shall specify the steps the Jump Start Corporation intends to take for Liquidation of the Jump Start Loan, including proposed costs. Unless the Jump Start Corporation receives written objections to the Liquidation plan from IBank within fourteen (14) days of submitting the plan to IBank, the plan shall be deemed approved by IBank. In the event the Jump Start Corporation receives a written objection to the plan from IBank within the fourteen (14) days, IBank and the Jump Start Corporation shall negotiate a mutually acceptable Liquidation plan.

(b) Liquidation recoveries made in connection with the Jump Start Loans shall be applied in the following order of priority:

(1) To pay Liquidation costs approved by IBank

(2) To pay principal

(3) To pay accrued interest

(c) With respect to Liquidation in connection with Jump Start Loans, the Jump Start Corporation shall not initiate any judicial remedy without the prior written approval of IBank.

§ 5028 JUMP START LOAN FEES

The Jump Start Corporation shall be authorized to charge the Jump Start Borrower a fee of three percent (3%) of the principal amount of the Jump Start Loan. The fee shall not exceed that specified in Government Code Section 63089.67.

§ 5029 *[Reserved]*

§ 5030 DISASTER RELIEF LOAN GUARANTEE PROGRAM

(a) The Disaster Relief Loan Guarantee Program (Disaster Relief Program) exists as a sub-program of IBank's California Small Business Loan Guarantee Program. The purpose of the Disaster Relief Program is to provide Collection Guarantees for Loans to Disaster Relief Borrowers. Except as expressly provided in this Section 5030 to the contrary, Guarantees of Loans under the Disaster Relief Program shall be governed by Sections 5001 through 5006.

(b) For purposes of the Disaster Relief Program and this Section 5030 only:

(1) Every occurrence of the word "Borrower" in Sections 5001 through 5006 shall be replaced with the words "Disaster Relief Borrower."

(2) Section 5002(b)(1) shall be deleted in its entirety and replaced with the following: "The Corporation's promise to pay (I) (i) up to ninety-five percent (95%) of the outstanding principal of a Loan, if the interest rate of which does not exceed one percent (1%) above the prime rate listed in the western edition of the Wall Street Journal on the date of the Loan commitment, (ii) up to ninety percent (90%) of the outstanding principal of a Loan, if the interest rate of which exceeds one percent (1%), but is not greater than two percent (2%) above the prime rate listed in the western edition of the Wall Street Journal on the date of the Loan commitment, or (iii) up to eighty-five percent (85%) of the outstanding principal of a Loan, if the interest rate of which exceeds two percent (2%) above the prime rate listed in the western edition of the Wall Street Journal on the date of the Loan commitment; and (II) accrued yet unpaid interest up to 90 days at the same guarantee percentage, all on a Loan in which the Collection

Guarantee is approved in accordance with IBank policy referenced in the Corporate Contract, subject to the following restrictions:

(A) The Lender has complied with all material conditions contained in the Collection Guarantee; and

(B) The Lender has not engaged, and will not engage, in fraudulent or negligent practices in connection with the Disaster Relief Borrower, the Collection Guarantee, the Loan or the related loan agreement."

(3) Section 5002(b)(12) shall be deleted in its entirety and replaced with the following: "The maximum Collection Guarantee amount under the Disaster Relief Program for any business is $1,000,000. The maximum Loan amount for any business is $1,250,000, unless specific written approval is obtained from the Executive Director for a larger Loan amount."

(c) A Collection Guarantee under the Disaster Relief Program shall be for a Loan to a Disaster Relief Borrower, the sole purpose of which is to provide financing to enable the Disaster Relief Borrower to recover from (1) Significant Actual Physical Damage to real or personal property, and/or (2) Significant Economic Injury.

(d) A Loan to a Disaster Relief Borrower shall not exceed the aggregate sum of (1) the estimated fair market value replacement or repair cost of any Significant Actual Physical Damage, and (2) the estimated monetary loss suffered by a Disaster Relief Borrower as a result of Significant Economic Injury.

(e) Prior to issuing any Collection Guarantee in connection with a Loan to a Disaster Relief Borrower, the Corporation shall confirm that, in its reasonable opinion, the Loan does not exceed the amount set forth in Section 5030(d).

(f) A Corporation shall not issue a Collection Guarantee of a Loan to a Disaster Relief Borrower unless it determines each of the following conditions are satisfied:

(1) The Disaster Relief Borrower cannot obtain a loan without some form of credit enhancement.

(2) The Disaster Relief Borrower has demonstrated a reasonable prospect of repayment.

(3) The Loan to the Disaster Relief Borrower will be used exclusively in California.

(4) The Loan to the Disaster Relief Borrower qualifies as a loan to a "Small Business" (as defined in part 121 of chapter 1 of title 13 of the Code of Federal Regulations, as amended).

(g) All Guarantees to Disaster Relief Borrowers shall be Collection Guarantees.

B. Corporations Code

TITLE 1. CORPORATIONS [100 - 14631]
DIVISION 3. CORPORATIONS FOR SPECIFIC PURPOSES [12000 - 14631]
PART 5. SMALL BUSINESSES [14000 - 14024]
CHAPTER 1. California Small Business Financial Development Corporations [14000 - 14024]

ARTICLE 1. Introduction [14000 - 14002]

14000. This chapter shall be known and may be cited as the California Small Business Financial Development Corporation Law.

14001. (a) It is the intent of the Legislature in enacting this chapter to promote the economic development of small businesses through the California Small Business Finance Center by making available capital, general management assistance, and other resources, including financial services, personnel, and business education to small business entrepreneurs, including women, veteran, and minority-owned businesses, for the purpose of promoting the health, safety, and social welfare of the citizens of California, to eliminate unemployment of the economically disadvantaged of the state, and to stimulate economic development and entrepreneurship.
(b) It is the further intent of the Legislature to provide a flexible means to mobilize and commit all available and potential resources in the various regions of the state to fulfill these objectives, including federal, state, and local public resources, and private debt and equity investment.
(c) It is the further intent of the Legislature that corporations operating pursuant to this law shall, to the maximum extent feasible, coordinate with other job and business development efforts within their region directed toward implementing the purpose of this chapter.
(d) It is the further intent of the Legislature to provide expanded resources allowing participation by small and emerging contractors in state public works contracts. Increased access to surety bonding resources will assist in supporting participation by those firms in public works contracts, and by stimulating increased participation by small firms, the state will benefit from increased competition and lower bid costs.

14002. If any provision of this chapter or the application thereof to any person or circumstances is held invalid, this invalidity shall not affect other provisions or applications of the chapter which can be given effect without the invalid provision or application, and to this end the provisions of this chapter are severable.

ARTICLE 2. Definitions [14003- 14003.]

14003. Unless the context otherwise requires, the definitions in this section shall govern the construction of this chapter.
(a) “Bank” means the California Infrastructure and Economic Development Bank.
(b) “Bank board” means the board of directors of the California Infrastructure and Economic Development Bank.
(c) “Board of directors” means the board of directors of the corporation.
(d) “California Small Business Board” means the advisory board established pursuant to Section 14004.1 for the purpose of advising on issues and programs affecting small business.
(e) “California Small Business Finance Center” means the governmental unit within the bank, which is located within the Governor’s Office of Business and Economic Development, with the administrative responsibility for the programs and activities authorized pursuant to Section 8684.2 of the Government Code, the Small Business Financial Assistance Act of 2013 (Chapter 6 (commencing with Section 63088) of Division 1 of Title 6.7 of the Government Code), and this chapter.
(f) “Corporation” means any nonprofit California small business financial development corporation created pursuant to this chapter, or pursuant to Chapter 1 (commencing with Section 32000) of Division 15.5 of the Financial Code.

(g) “Directives and requirements” means a document adopted by the bank board setting forth policy direction as well as key rules governing a particular subject area.
(h) “Executive director” means the executive director of the California Infrastructure and Economic Development Bank.
(i) “Expansion fund” means the California Small Business Expansion Fund authorized pursuant to Section 63089.5 of the Government Code.
(j) “Financial company” means banking organizations, including national banks and trust companies, savings and loan associations, certified community development financial institutions, microbusiness lenders, state insurance companies, mutual insurance companies, and other public and private banking, lending, retirement, and insurance organizations.
(k) “Financial institution” means regulated banking organizations, including national banks and trust companies authorized to conduct business in the state and state-chartered commercial banks, trust companies, credit unions, and savings and loan associations.
(l) “Financial product” means the type of financial assistance described in Section 63088.5 of the Government Code or that the California Small Business Finance Center or a small business financial development corporation is otherwise authorized to provide.
(m) “Loan committee” means a committee appointed by the board of directors of a corporation to determine the course of action on a loan application pursuant to Chapter 6 (commencing with Section 63088) of Division 1 of Title 6.7 of the Government Code.
(n) “Microbusiness lender” means a microbusiness lender as defined in Section 13997.2 of the Government Code.
(o) “Program manager” means the manager of the California Small Business Finance Center as designated to this title by the executive director of the bank.
(p) “Trust fund” means the money from the expansion fund that is held in trust by a financial institution or financial company. A trust fund is not a deposit of state funds and is not subject to the requirements of Section 16506 of the Government Code.
(q) “Trust fund account” means an account within the trust fund that is either allocated to a particular corporation or shared by multiple corporations for the purpose of paying loan defaults and claims on bond guarantees or other financial products and program uses provided in this chapter.

ARTICLE 3. Program Manager [14004 - 14004.2]

14004. (a) The program manager shall do all of the following:
(1) Administer this chapter.
(2) Make recommendations to the executive director and the bank board on the approval or disapproval of the articles of incorporation. This determination shall be based upon the following:
(A) Review of the articles of incorporation and bylaws of the corporation to determine whether they contain the provisions required by this chapter and conform with the directives and requirements adopted by the bank board pursuant to this chapter.
(B) A determination as to whether the legislative intent expressed in Section 14001 shall be served by the proposed corporation.
(C) A determination as to whether the responsibility, character, and general fitness of the individuals who will manage the corporation are such as to command the confidence of the state and to warrant the belief that the business of the proposed corporation will be honestly and efficiently conducted in accordance with the intent and purpose of this chapter and that they include representatives of the financial and business community, as well as the economically disadvantaged.
(D) A determination by the program manager that there is significant need for a new corporation.
(3) Have the accounts of each corporation formed under this chapter examined and audited as of the close of business on June 30 of each year. Material examination exceptions that are not corrected by the corporation within a reasonable period of time may result in the suspension or termination of the corporation pursuant to Section 63089.3 of the Government Code.
(4) Have the portfolio of each corporation examined a minimum of once a year. Material examination exceptions that are not corrected by the corporation within a reasonable period of time may result in the suspension or termination of the corporation pursuant to Section 63089.3 of the Government Code.

(5) Review reports from the Department of Business Oversight and inform corporations as to what corrective action is required.
(6) Examine, or cause to be examined, at any reasonable time, all books, records, and documents of every kind, and the physical properties of a corporation. The inspection shall include the right to make copies, extracts, and search records.
(b) The program manager may attend and participate at corporation meetings. The program manager, or his or her designee, shall be an ex officio, nonvoting representative on the board of directors and loan committees of each corporation. The program manager shall meet through telecommunication or in person with the board of directors of each corporation at least once each fiscal year, commencing January 1, 2014.

14004.1. (a) The California Small Business Board is hereby continued and created as an advisory board to the California Infrastructure and Economic Development Bank Board, the executive director, and the program manager. The California Small Business Board may also advise the Governor and the Small Business Advocate regarding issues and programs affecting California's small business community, including, but not limited to, business innovation and expansion, export finance, state procurement, management and technical assistance, venture capital, and financial assistance.
(b) The California Small Business Board consists of the following membership:
(1) The Director of Finance or his or her designee.
(2) The Director of the Office of the Small Business Advocate or his or her designee.
(3) The Treasurer or his or her designee.
(4) A representative from two different corporations selected by the corporations.
(5) Four members appointed by the Governor, one of whom will serve as chair of the California Small Business Board, who are actively involved in the California small business community.
(6) Two persons actively involved in the business or agricultural communities, one appointed by the Speaker of the Assembly and one appointed by the Senate Committee on Rules.
(7) Two Members of the Legislature, or their designees, one appointed by the Speaker of the Assembly and one appointed by the Senate Committee on Rules, so long as it does not conflict with their duties as legislators.
(c) The California Small Business Board shall advise the program manager on matters regarding this chapter and Chapter 6 (commencing with Section 63088) of Division 1 of Title 6.7 of the Government Code.
(d) The public members of the California Small Business Board, at the discretion of the bank board, may be reimbursed per diem and travel expenses pursuant to state law.

14004.2. The bank board shall approve new corporations recommended by the program manager, based on an examination of each of the following:
(a) Review of the articles of incorporation and bylaws of the corporation to determine whether they contain the provisions required by this chapter and conform with the directives and requirements adopted by the bank board pursuant to this chapter.
(b) Determination as to whether the legislative intent expressed in Section 14001 will be served by the proposed corporation.
(c) Determination as to whether the responsibility, character, and general fitness of the individuals who will manage the corporation are able to command the confidence of the state and to warrant the belief that the business of the proposed corporation will be honestly and efficiently conducted in accordance with the intent and purpose of this chapter and that they include representatives of the financial and business community, as well as the economically disadvantaged.
(d) Determination of the program manager that there is significant need for a new corporation.

ARTICLE 4. New Corporations [14005 - 14012]
14005. Upon approval by the bank board to become a corporation, an entity shall adopt or amend its articles of incorporation to comply with the following:
(a) The name of the corporation shall include the words "small business financial development corporation," except for those corporations formed pursuant to this chapter prior to 2002, which may also be called "small business development corporations," or those formed prior to 1985, which may also be called "rural or urban development corporations."

(b) The purposes for which the corporation is formed, which shall be those specified in Section 14001. This requirement shall not be deemed to preclude a statement of powers.
(c) A geographical description of the corporation's primary service area.
(d) The name and addresses of seven or more persons who are to act in the capacity of directors until the selection of their successors.
(e) That the corporation is organized pursuant to the California Small Business Financial Development Corporation Law.

14006. If the bank board concurs with the findings of the program manager pursuant to Section 14004, the bank board shall direct the program manager to approve the articles of incorporation and endorse the approval thereon and forward the same to the Secretary of State for his or her approval and filing. Likewise, the program manager shall review all amendments to the articles of incorporation to ensure consistency with the purposes of this chapter.

14007. (a) The corporation's existence as a small business financial development corporation begins upon the filing of the articles with the Secretary of State and continues perpetually, unless otherwise expressly provided for by law.
(b) If a corporation is terminated from participation in all programs, in order to continue its existence as a nonprofit corporation pursuant to the Nonprofit Public Benefit Corporation Law (Part 2 (commencing with Section 5110) of Division 2 of Title 1 of the Corporations Code), the corporation shall amend its articles of incorporation in accordance with Chapter 8 (commencing with Section 5180) of Part 2 of Division 2 of Title 1 to remove the provisions required by Section 14005, including an amendment to remove the words "small business financial development corporation," "small business development corporation," or "rural or urban development corporation," as applicable, from the corporate name, and shall no longer be registered with the Secretary of State as a small business financial development corporation. A corporation shall not enjoy any of the benefits of a small business financial development corporation following termination.

14009. (a) Each corporation shall have provisions establishing a grievance procedure for employees, clients, or potential clients, to appeal a decision or obtain redress of an action done by the staff or loan committee of the corporation. The procedures shall be established in writing during the probationary period of a new corporation.
(b) The bylaws of the corporation shall authorize the removal of officers only by a two-thirds vote of the directors of the corporation.

14011. The Nonprofit Public Benefit Corporation Law (Part 2 (commencing with Section 5110) of Division 2 of this title) applies to corporations formed under this chapter, except as to matters otherwise provided for in this chapter.

14012. For six months following the establishment of a corporation, commencing upon filing of the articles of incorporation with the Secretary of State, a corporation shall be on probation. While on probation, a corporation may be suspended if suspension is recommended by the program manager and affirmed by the executive director. This suspension is nonappealable and not subject to the procedures for suspension applicable to a corporation not on probation.

ARTICLE 5. Corporation Board [14013 - 14017]

14013. The corporate powers of a corporation shall be exercised by its board of directors.

14014. The bank shall enter into a contract with each corporation that shall require that:
(a) A person may not serve on a corporation's board of directors who is not a resident of, or person conducting business in, the primary service area described in the articles of incorporation.
(b) A corporation's board of directors shall include representatives from all of the following:
(1) The financial community.
(2) The business community.
(3) The economically disadvantaged.

(c) The chief executive officer of a corporation, or his or her designee, is the only employee of the corporation who may serve on its board of directors.
(d) A person who has a financial interest related to a matter over which the board of directors has authority may not make, participate in making, or in any way attempt to influence that matter.

14015. If any director ceases to meet the qualifications established in Section 14014, he or she shall immediately vacate his or her position as a director and the position shall be deemed vacant.

14016. If any vacancy occurs in the elective membership of the board of directors through death, resignation, or otherwise, the remaining directors shall elect a person representing the appropriate category to fill the vacancy for the unexpired term.

14017. The bank board shall direct the program manager to establish new small business financial development corporations pursuant to the directives and requirements. The directives and requirements shall include steps to achieve a goal of ensuring that small businesses in all areas of the state would have reasonable access to the financial products authorized by Chapter 6 (commencing with Section 63088) of Division 1 of Title 6.7 of the Government Code for which they are eligible.

ARTICLE 6. Corporations, Miscellaneous [14018 - 14021]
14018. Every corporation shall provide for, and maintain a central staff to perform, all administrative requirements of the corporation, including all those functions required of a corporation by the contract and this chapter.

14019. Reasonable costs incurred by a corporation in the creation and maintenance of a central staff shall be paid to the corporation from state funds, including a portion of the interest earned on the expansion fund and the corporation's trust fund account, if the corporation has a trust fund account, otherwise, on the expansion fund.

14020. A corporation shall report to the program manager, or his or her designated representative, all statistical and other reports required by this chapter and Chapter 6 (commencing with Section 63088) of Division 1 of Title 6.7 of the Government Code, including responses to audit reports, budget requirements, and other information relating to the establishment, monitoring, and suspension or termination of a corporation.

14021. A corporation shall make a report to the program manager, as required by Chapter 6 (commencing with Section 63088) of Division 1 of Title 6.7 of the Government Code.

ARTICLE 7. Conflict of Interest [14022 - 14024]

14022. It shall be unlawful for a member of the bank board or for the executive director, program manager, or any person who is an officer, director, contractor, or employee of a corporation, or who is a member of a loan committee, or who is an employee of the California Infrastructure and Economic Development Bank to do any of the following:
(a) Ask for, consent, or agree to receive, any commission, emolument, gratuity, money, property, or thing of value for his or her own use, benefit, or personal advantage, for procuring or endeavoring to procure for any person, partnership, joint venture, association, or corporation, any loan, guarantee, financial, or other assistance from any corporation.
(b) Borrow money, property, or to benefit knowingly, directly or indirectly, from the use of the money, credit, or property of any corporation.
(c) Make, maintain, or attempt to make or maintain, a deposit of the funds of a corporation with any other corporation or association on condition, or with the understanding, expressed or implied, that the corporation or association receiving the deposit shall pay any money or make a loan or advance, directly or indirectly, to any person, partnership, joint venture, association, or corporation, other than to a corporation formed under this chapter.

14203.00 It shall be unlawful for a member of the bank board or for the executive director, program manager, or any person who is an officer or director of a corporation, or who is an employee of the California Infrastructure and Economic Development Bank to purchase or receive, or to be otherwise interested in the purchase or receipt, directly or indirectly, of any asset of a corporation, without paying to the corporation the fair market value of the asset at the time of the transaction.

14024. Violation of any provision of this article shall constitute a felony.

C. California Small Business Financial Assistance Act of 2013

TITLE 6.7. INFRASTRUCTURE FINANCE [63000 - 64132]
DIVISION 1. THE BERGESON-PEACE INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK ACT [63000 - 63089.98]
CHAPTER 6. Small Business Financial Assistance Act of 2013 [63088 - 63089.98]

ARTICLE 1. Introduction [63088 - 63088.1]

63088. (a) This chapter shall be known, and may be cited, as the Small Business Financial Assistance Act of 2013.
(b) Notwithstanding any other provision of this division, this chapter shall not apply to any other activities, powers, and duties of the bank under any of the other chapters of this division.

63088.1. The Legislature finds all of the following:
(a) Small businesses form the core of the California economy and that it is in the interest of the state to increase opportunities for entrepreneurs, the self-employed, and microbusiness and small business owners to have better access to capital and other technical resources.
(b) Unemployment in California is a matter of statewide concern requiring concerted public and private action to develop employment opportunities for the disadvantaged, unemployed persons, veterans, and youth.
(c) It is necessary to direct additional capital, general management assistance, business education, and other resources to encourage the development of small business opportunities, particularly for minorities, women, and disabled persons, to alleviate unemployment.

ARTICLE 2. Definitions [63088.3- 63088.3.]

63088.3. Unless the context otherwise requires, the definitions in this section shall govern the construction of this chapter. The definitions provided in this section shall only apply to this chapter and not to any other chapter of this division.
(a) “Bank” means the California Infrastructure and Economic Development Bank.
(b) “Bank board” means the board of directors of the California Infrastructure and Economic Development Bank.
(c) “Board of directors” means the board of directors of a corporation.
(d) “California Small Business Board” means the advisory board established pursuant to Section 14004.1 of the Corporations Code for the purpose of advising on issues and programs affecting small business.
(e) “California Small Business Finance Center” means the governmental unit within the bank, which is located within the Governor’s Office of Business and Economic Development, with the administrative responsibility for programs and activities authorized pursuant to Section 8684.2 of this code, Chapter 1 (commencing with Section 14000) of Part 5 of Division 3 of Title 1 of the Corporations Code, and this chapter.
(f) “Corporation” means any nonprofit California small business financial development corporation created pursuant to Chapter 1 (commencing with Section 14000) of Part 5 of Division 3 of Title 1 of the Corporations Code, or pursuant to Chapter 1 (commencing with Section 32000) of Division 15.5 of the Financial Code.
(g) “Directives and requirements” means a document adopted by the bank board setting forth policy direction as well as key rules governing a particular subject area.
(h) “Executive director” means the executive director of the California Infrastructure and Economic Development Bank.
(i) “Expansion fund” means the California Small Business Expansion Fund authorized pursuant to Section 63089.5.
(j) “Financial company” means banking organizations, including national banks and trust companies, savings and loan associations, certified community development financial institutions,

microbusiness lenders, state insurance companies, mutual insurance companies, and other public and private banking, lending, retirement, and insurance organizations.
(k) “Financial institution” means regulated banking organizations, including national banks and trust companies authorized to conduct business in California and state-chartered commercial banks, trust companies, credit unions, and savings and loan associations.
(l) “Financial product” means the type of financial assistance described in Section 63088.5, authorized by this chapter, or that the California Small Business Finance Center or a small business financial development corporation is otherwise authorized to provide.
(m) “Loan committee” means a committee appointed by the board of directors of a corporation to determine the course of action on a loan application pursuant to this chapter.
(n) “Microbusiness lender” means a microbusiness lender as defined in Section 13997.2.
(o) “Program manager” means the manager of the California Small Business Finance Center as designated to this title by the executive director of the California Infrastructure and Economic Development Bank.
(p) “Small business loan” means a loan to a business defined as an eligible small business as set forth in Section 121.3-10 of Part 121 of Chapter 1 of Title 13 of the Code of Federal Regulations, including those businesses organized for agricultural purposes that create or retain employment as a result of the loan unless otherwise defined by the directives and requirements. Directives and requirements shall provide guidelines as to the preferred ratio of jobs created or retained to total funds borrowed for guidance to the corporations.
(q) “Trust fund” means the moneys from the expansion fund that is held in trust by a financial institution or financial company. A trust fund is not a deposit of state funds and is not subject to the requirements of Section 16506.
(r) “Trustee” means the lending institution or financial company selected by the bank board to hold and invest the trust funds, or selected by a predecessor agency to the bank, if applicable. An agreement made pursuant to this chapter and the trustee shall not be construed to be a deposit of state funds.
(s) “Trust fund account” means an account within the trust fund that is either allocated to a particular corporation or shared by multiple corporations for the purpose of paying loan defaults and claims on bond guarantees or other financial products and program uses provided in this chapter.

ARTICLE 3. Purpose [63088.5 - 63088.6]

63088.5. (a) There is within the Governor’s Office of Business and Economic Development the California Infrastructure and Economic Development Bank, which shall, among other things, administer the California Small Business Finance Center that administers programs to assist businesses seeking new capital resources, including, but not limited to, the Small Business Loan Guarantee Program.
(b) Pursuant to this chapter and Chapter 1 (commencing with Section 14000) of Part 5 of Division 3 of Title 1 of the Corporations Code, the bank board may continue programs funded by the Small Business Expansion Fund or establish one or more programs administered by the bank or under contract with small business financial development corporations. Programs established pursuant to this chapter or Chapter 1 (commencing with Section 14000) of Part 5 of Division 3 of Title 1 of the Corporations Code may include the following types of financial products:
(1) Loan guarantees and other credit enhancements.
(2) Direct loans and other debt instruments.
(3) Disaster loan guarantees.
(4) Surety bond guarantees.
(c) In all of their state-funded programs, the corporations shall, to the extent practicable, be complementary to, and not competitive with, commercial lenders and other state and federal programs.
(d) In carrying out this chapter the program manager, the executive director, and the bank board may call on the California Small Business Board for advice and recommendations. All actions by the California Small Business Board are advisory.

(e) The California Small Business Board may also advise the Governor and the Small Business Advocate regarding issues and programs affecting California's small business community, including, but not limited to, business innovation and expansion, export finance, state procurement, management and technical assistance, venture capital, and financial assistance.

63088.6. To implement its responsibilities, a corporation shall undertake program activities that shall include, but not be limited to, the following:
(a) Outreach to low-resource small businesses and microbusinesses. The corporations located in rural areas shall give priority to low-resource farmers and rural and agriculturally related businesses.
(b) Collaboration with other organizations and lenders to identify and assist those businesses that are creditworthy but face impediments to accessing conventional sources because of reasons, such as low equity, inadequate collateral, unacceptable legal structure (such as a co-op or nonprofit organization), management inadequacies, and language problems.
(c) To the extent possible, bringing all possible financial resources to bear on the borrower's problems, including, but not limited to, low-interest lenders, business and industrial development corporations (BIDCOs), minority enterprise small business investment companies (MESBICs), and other financial institutions, financial companies, and grantors.
(d) Technical assistance to businesses receiving loans or guarantees that will maximize the probability of loan repayment.
(e) Ongoing strategies for increasing program resources through private sector involvement and nonstate funds.
(f) A program for collecting and liquidating defaulted loans so that the corporations can qualify to become full-service lenders under the Small Business Administration. Corporations located in rural areas shall, in addition, try to qualify for lender status under the United States Department of Agriculture's Rural Development and Farm Services Agency.
(g) Become an agent for other financial institutions and financial companies.
(h) Become an agent for other state or federal governmental agencies that need a qualified financial service provider, including, but not limited to, the State Energy Resources Conservation and Development Commission.

ARTICLE 4. Administrative Structure [63089 - 63089.4]

63089. The bank board shall adopt directives and requirements concerning the implementation of this chapter and pursuant to Chapter 1 (commencing with Section 14000) of Part 5 of Division 3 of Title 1 of the Corporations Code. Any regulations adopted pursuant to Chapter 1 (commencing with Section 14000) of Part 5 of Division 3 of Title 1 of the Corporations Code, as that chapter read on January 1, 2013, shall remain in effect until the bank board adopts directives and requirements relating to the specific policy or activity, but in no case beyond June 1, 2015.

63089.1. (a) The program manager acting under the guidance of the executive director shall do all of the following:
(1) Administer this chapter.
(2) Enter into a contract between the bank and each corporation for services to be provided by the corporations for one or more programs or financial products under this chapter and Chapter 1 (commencing with Section 14000) of Part 5 of Division 3 of Title 1 of the Corporations Code.
(3) In accordance with available resources, allow the use of branch offices for the purposes of making these programs under this chapter accessible to all areas of the state.
(4) Require each corporation to submit an annual written plan of operation.
(5) Authorize the distribution, transfer, leverage, and withholding of moneys in the expansion fund and trust funds.
(6) Authorize the investment of expansion and trust fund moneys.
(7) Oversee the operations of one or more programs authorized pursuant to this chapter and by Section 8684.2.
(8) Act as liaison between corporations, other state and federal agencies, lenders, and the Legislature.

(9) Act as secretary to the California Small Business Board, and attend meetings of the California Small Business Board and the bank board.
(b) The program manager may attend and participate at corporation meetings. The program manager or his or her designee shall be an ex officio, nonvoting representative on the board of directors and loan committees of each corporation. The program manager shall confer with the board of directors of each corporation as appropriate and necessary to carry out his or her duties, but in no case shall the program manager confer less than once each fiscal year.
(c) In accordance with available resources, assist corporations in applying for public and private funding opportunities, and in obtaining program support from the business community.

63089.2. (a) The use of state funds paid out to the trust fund and the return on those funds from investment pursuant to Section 63089.56 is conditional pursuant to Sections 63089.3 and 63089.57. Each corporation shall enter into a written signed agreement with the bank to provide program management services for one or more programs or activities of the California Small Business Finance Center authorized under Section 8684.2, this chapter, and Chapter 1 (commencing with Section 14000) of Part 5 of Division 3 of Title 1 of the Corporations Code.
(b) Agreements with the corporations entered into pursuant to this chapter are exempt from the requirements of Section 10295, and Sections 10335 to 10381, inclusive, of the Public Contract Code. The agreement shall, at a minimum, govern the activities in which the corporation engages, the investment of state funds and its return, and the budgeted administrative expenses the corporations may incur.
(c) In the event the program manager and corporation do not reach an agreement, the corporation may appeal one or more conditions of the contract to the executive director or the bank board by providing written notice to the executive director within 10 days of the final written contract proposal from the program manager. The executive director or the bank board shall make a determination within 30 days of receiving written notice.
(d) In the event that the program manager finds the corporation has violated the terms of an active agreement, the program manager may take any action under Section 63089.3 or 63089.57, or any other action as appropriate. In the event the program manager finds the corporation has substantively violated the terms of an active agreement, the corporation shall have no authority to withdraw or encumber the moneys in the trust fund or the return of those funds by the issuance of guarantees, commitments for other financial products, or by incurring expenses against the fund and its return in any manner whatsoever, and the program manager may take any action under Section 63089.3 or 63089.57, or any other action as appropriate. Any guarantee or other encumbrance made by the corporation in violation of this section shall be null and void, and the state, the bank, the expansion fund, or the trust fund will not be liable therefor.

63089.3. (a) The program manager may temporarily suspend the guarantee authority or other financial product authority of a corporation if in the determination of the program manager a corporation has substantially failed to comply with any of the requirements in subdivision (b), causing irreparable harm to the program, the corporation's guarantee, or any other financial products authority. The notice of temporary suspension sent to the corporation shall specify the reasons for the action.
(1) As used in this section, "guarantee or any other financial products authority" means the authority to make or guarantee or administer any other financial products that encumber funds in a trust fund account, any account or subaccount under the direct control of the bank or other state entity, or the expansion fund.
(2) The program manager shall make one of the determinations specified in subdivision (b) within 30 days of the effective date of the temporary suspension, unless the corporation and the program manager mutually agree to an extension. The corporation shall have the opportunity to submit written material to the program manager addressing the items stated in the temporary suspension notice. If the program manager does not make any determinations within 30 days, the temporary suspension shall be reversed. The corporation's yearly contract shall remain in effect during the period of temporary suspension, and the corporation shall continue to receive reimbursement of necessary operating expenses.

(b) Failure of a corporation to substantially comply with the following may result in the suspension or termination of a corporation:
(1) Directives and requirements adopted by the bank board, for implementing the California Small Business Development Corporation Law (Chapter 1 (commencing with Section 14000) of Part 5 of Division 3 of Title 1 of the Corporations Code) and this chapter.
(2) Failure to meet any fiscal, audit, examination, or portfolio requirement, as contained in the directives and requirements and examination reports.
(3) Failure to significantly meet any milestones or scope of work as contained in the performance contract between the corporation and the bank.
(4) Any other action in the opinion of the program manager that causes irreparable harm to the corporation, the expansion fund, or the trust fund.
(c) Pursuant to subdivisions (a) and (b), the program manager may take any of the following actions:
(1) Terminate the temporary suspension.
(2) Terminate the temporary suspension subject to the corporation's adoption of a specified remedial action plan approved by the program manager.
(3) Continue the temporary suspension of guarantee and other financial product authority until a specified time.
(4) Terminate the corporation's authority to administer specified loan guarantees or other financial products.
(5) Terminate the corporation's authority to remain a corporation authorized pursuant to the California Small Business Development Corporation Law (Chapter 1 (commencing with Section 14000) of Part 5 of Division 3 of Title 1 of the Corporations Code) and this chapter.
(d) The program manager shall make one of the determinations specified in subdivision (c) within 30 days of the effective date of the temporary suspension notice, unless the corporation and the program manager mutually agree to an extension. If the program manager does not make any determinations within 30 days, the temporary suspension shall be negated. The corporation's yearly contract shall remain in effect during the period of temporary suspension, and the corporation shall continue to receive reimbursement of necessary operating expenses.
(e) The actions contained in paragraphs (3) to (5), inclusive, of subdivision (c) require a finding that irreparable harm will occur unless the action is taken, and a finding that the corporation has failed to comply with the California Small Business Development Corporation Law (Chapter 1 (commencing with Section 14000) of Part 5 of Division 3 of Title 1 of the Corporations Code) and this chapter.
(f) In considering any action specified in subdivision (c), the program manager shall consider, along with other criteria as specified in subdivision (b), the corporation's history and past performance.
(g) If the program manager decides to take any action pursuant to paragraphs (3) to (5), inclusive, of subdivision (c), the program manager shall transfer all funds subject to the action, whether encumbered or not, in the trust fund account of the suspended or terminated corporation into either the expansion fund, or either permanently or temporarily transfer the funds to the trust fund account of another corporation or a holding account in the expansion fund or trust fund established for this purpose, unless an appeal is received from the corporation pursuant to subdivision (h).
(h) If the program manager intends to transfer funds as specified in paragraph (g), the corporation shall be notified of the funds transfer 10 days before the effective date of the transfer. The corporation shall have the right to appeal the program manager's decision to the executive director within that 10-day period by sending written notice to the executive director. Once the executive director receives notice that the action is being appealed, the program manager's funds transfer shall be stayed.
(i) The corporation shall have the opportunity to submit written material to the executive director addressing the actions and findings stated in the program manager's determination. The executive director shall consider and make a final determination on the appeal within 30 days of receiving the appeal notice from the corporation, or such longer time as agreed to by the executive director and the corporation. The executive director may elect to take any of the actions listed in subdivision (j). The action of the program manager shall remain in effect until the executive director issues a

decision. The corporation's performance contract shall remain in effect during the appeal period, and the corporation shall continue to receive reimbursement of necessary operating expenses.
(j) Pursuant to subdivision (i), the executive director may independently take action or seek the advice and recommendation of the California Small Business Board prior to taking any of the following actions:
(1) Rescind the action taken by the program manager.
(2) Modify the action taken by the program manager subject to the adoption by the corporation of a specified remedial action plan approved by the executive director.
(3) Affirm the action taken by the program manager.
(k) Following the executive director's concurrence any action pursuant to paragraphs (3) to (5), inclusive, of subdivision (c), the program manager shall transfer all funds subject to the action, whether encumbered or not, in the trust fund account of the suspended or terminated corporation into either the expansion fund, or either permanently or temporarily transfer the funds to the trust fund account of another corporation or a holding account in the expansion fund or trust fund established for this purpose. The corporation shall be notified of the funds transfer 10 days before the effective date of the transfer. The corporation shall have the right to appeal the executive director's decision to the bank board within that 10-day period by sending written notice to the chair of the bank board. Once the chair of the bank board receives notice that the executive director's determination is being appealed, the program manager's funds transfer shall be stayed.
(l) The corporation shall have the opportunity to submit written material to the bank board addressing the actions and findings stated in the executive director's determination. The bank board shall consider and make a final determination on the appeal within 30 days of receiving the appeal notice from the corporation, or such longer time as agreed to by the chair of the bank board and the corporation. The action of the executive director shall remain in effect until the bank board issues a decision. The corporation's performance contract shall remain in effect during the appeal period, and the corporation shall continue to receive reimbursement of necessary operating expenses.
(m) Pursuant to subdivision (l), the bank board may independently take action or seek the advice and recommendation of the California Small Business Board prior to taking any of the following actions:
(1) Rescind the action taken by the executive director.
(2) Modify the action taken by the executive director subject to the adoption by the corporation of a specified remedial action plan acceptable to the executive director.
(3) Affirm the action taken by the executive director.
(n) Following the bank board's concurrence with the executive director's determination consistent with any action pursuant to paragraphs (3) to (5), inclusive, of subdivision (c), the program manager shall transfer all funds subject to the action, whether encumbered or not, in the trust fund account of the suspended or terminated corporation into either the expansion fund, or either permanently or temporarily transfer the funds to the trust fund account of another corporation or a holding account in the expansion fund or trust fund established for this purpose. The corporation shall be notified of the funds transfer 10 days before the effective date of the transfer.
(o) Notwithstanding Section 63089.56, in the event a final determination was made by the program manager, the executive director or the bank board, whichever is applicable, to temporarily transfer the funds of the corporation to the expansion fund or to the trust fund account of another corporation or a holding account in the expansion fund or trust fund established for this purpose, upon compliance with all requirements of that final determination as determined by the executive director, the transferred funds shall be returned to the corporation's trust fund account. While the funds of a corporation's trust fund account reside in the expansion fund, use of the principal on the funds shall be governed by the implementing directives and requirements specifying use of funds in the expansion fund. Interest on the funds moved from a corporation's trust fund account upon temporary withdrawal shall be limited to payment of the corporation's administrative expenses, as contained in the contract between the corporation and the bank pursuant to this chapter.
(p) Following a final determination of termination of all activities of an active corporation, in order to continue its existence as a nonprofit corporation pursuant to the Nonprofit Public Benefit Corporation Law (Part 2 (commencing with Section 5110) of Division 2 of Title 1 of the Corporations Code), the corporation must amend its articles of incorporation in accordance with

Chapter 8 of Part 2 of Division 2 of the Corporations Code to remove the provisions required by Section 14005 of the Corporations Code, including an amendment to remove the words “small business financial development corporation,” “small business development corporation,” or “rural or urban development corporation,” as applicable, from the corporate name and shall no longer be registered with the Secretary of State as a small business financial development corporation. A corporation shall not enjoy any of the benefits of a small business financial development corporation following suspension.

63089.4. The bank is authorized to:
(a) Approve new corporations recommended by the program manager.
(b) Enter into contracts with corporations for program management and other financial product-related services.
(c) Select a financial institution or financial company to act as trustee of the trust fund as specified in this chapter.
(d) Invest expansion fund and trust fund moneys as specified in this chapter.
(e) Affirm, modify, or rescind the determinations of the program manager and the executive director as specified in this chapter.
(f) Adopt directives and requirements as specified in this chapter.
(g) Authorize new financial product programs and activities pursuant to this chapter.

ARTICLE 5. Expansion Fund and Trust Fund [63089.5 - 63089.62]

63089.5. (a) There is hereby continued in existence in the State Treasury the California Small Business Expansion Fund. All or a portion of the funds in the expansion fund may be paid out, with the approval of the Department of Finance, to a financial institution or financial company that will establish a trust fund and act as trustee of the funds.
(b) The expansion fund and the trust fund shall be used for the following purposes:
(1) To pay defaulted loan guarantee or surety bond losses, or other financial product defaults or losses.
(2) To fund direct loans and other debt instruments.
(3) To pay administrative costs of corporations.
(4) To pay state support and administrative costs.
(5) To pay those costs necessary to protect a real property interest in a financial product default.
(c) The expansion fund and trust fund are created solely for the purpose of receiving state, federal, or local government moneys, and other public or private moneys to make loans, guarantees, and other financial products that the California Small Business Finance Center or a financial development corporation is authorized to provide. The program manager shall provide written notice to the Joint Legislative Budget Committee and to the Chief Clerk of the Assembly and the Secretary of the Senate who shall provide a copy of the notice to the relevant policy committees within 10 days of any nonstate funds being deposited in the expansion fund. The notice shall include the source, purpose, timeliness, and other relevant information as determined by the bank board.
(d) (1) One or more accounts in the expansion fund and the trust fund may be created by the program manager for corporations participating in one or more programs authorized under this chapter and Section 8684.2. Each account is a legally separate account, and shall not be used to satisfy loan guarantees or other financial product obligations of another corporation except when the expansion fund or trust fund is shared by multiple corporations.
(2) The program manager may create one or more holding accounts in the expansion fund or the trust fund, or in both, to accommodate the temporary or permanent transfers of funds pursuant to Section 63089.3.
(e) The amount of guarantee liability outstanding at any one time shall not exceed 10 times the amount of funds on deposit in the expansion fund plus any receivables due from funds loaned from the expansion fund to another fund in state government as directed by the Department of Finance pursuant to a statute enacted by the Legislature, including each of the trust fund accounts within the trust fund.

63089.51. (a) All money deposited in the expansion fund is hereby continuously appropriated, without regard to fiscal years, for the purposes of this chapter.
(b) Except as specified in subdivision (b) of Section 63089.54, the state or the bank shall not be liable or obligated in any way beyond the state money that is allocated in the expansion fund from moneys from the General Fund appropriated for those purposes.

63089.52. (a) The program manager, at his or her discretion, with the approval of the executive director, may request the trustee to invest those moneys in the trust fund in any of the securities described in Section 16430. Returns from these investments shall be deposited in the expansion fund and shall be used to support the programs of this chapter.
(b) Any investments made in securities described in Section 16430 shall be governed by the investment policy approved by the bank board.

63089.53. Except as specified in subdivision (b) of Section 63089.54, the state or the bank shall not be liable or obligated in any way beyond the money that is allocated and deposited in the trust fund accounts.

63089.54. (a) There is hereby created in the State Treasury the Small Business Disaster Recovery Loan Loss Reserve Account, as part of the expansion fund. This account shall be used to pay for losses resulting from loan guarantees issued pursuant to subdivision (a) of Section 63089.90 or subdivision (b) of this section, and disaster loan guarantees and other credit enhancement defaults issued prior to the effective date of this section that are in default.
(b) Any lending institution that issues a loan that is guaranteed by resources in this account shall be fully reimbursed for the guaranteed portion of principal and interest that result from a loan or loans that are in default. If there are insufficient funds in this account to fully satisfy all claimants, the full faith of the resources in the General Fund are pledged to satisfy the obligations of this account. This account may only guarantee as much loan dollar value as is specifically authorized by the Director of Finance with the concurrence of the Governor. This account shall receive all moneys transferred pursuant to Section 63089.55, and any unencumbered balances transferred to the California Small Business Expansion Fund pursuant to Chapters 11 and 12 of the First Extraordinary Session of the Statutes of 1989, and Chapter 1525 of the Statutes of 1990, as of July 1, 1992.
(c) The Governor may utilize this authority to prevent business insolvencies and loss of employment in an area affected by a state of emergency within the state and declared a disaster by the President of the United States, by the Administrator of the United States Small Business Administration, or by the United States Secretary of Agriculture, or declared to be in a state of emergency by the Governor of California.

63089.55. The Director of Finance, with the approval of the Governor, may transfer moneys in the Special Fund for Economic Uncertainties to the California Small Business Expansion Fund for use as authorized by the bank board, in an amount necessary to make loan guarantees pursuant to Section 8684.2 and this chapter.

63089.56. (a) The funds in the expansion fund shall be paid out to trust fund accounts by the Treasurer on funds drawn by the Controller and requisitioned by the program manager, pursuant to the purposes of this chapter. The program manager may transfer funds allocated from the expansion fund to accounts, established solely to receive the funds, in financial institutions or financial companies designated by the bank to act as trustee. The financial institutions or financial companies so designated shall be approved by the state for the receipt of state deposits. Interest earned on the trust fund accounts in financial institutions or financial companies may be utilized by the corporations or the bank pursuant to the purposes of this chapter.
(b) The program manager may reallocate funds held within a corporation's trust fund account.
(1) The program manager may reallocate funds based on which corporation is most effectively using its guarantee funds. If funds are withdrawn from a less effective corporation as part of a reallocation, the program manager shall make that withdrawal only after giving consideration to that corporation's fiscal solvency, its ability to honor loan guarantee defaults, and its ability to

maintain a viable presence within the region it serves. Reallocation of funds shall occur no more frequently than once per fiscal year. Any decision made by the program manager pursuant to this subdivision may be appealed to the executive director unless otherwise specified. The executive director has the authority to repeal or modify any decision to reallocate funds.
(2) The program manager may authorize a corporation to exceed the leverage ratio specified in Section 63089.5 or subdivision (a) of Section 63089.62, pending the annual reallocation of funds pursuant to this section. However, no corporation shall be permitted to exceed an outstanding guarantee liability of more than specified in subdivision (a) of Section 63089.62 after a reallocation is made.
(c) Except as specified in subdivision (e), the program manager shall allocate and transfer money to trust fund accounts based on performance-based criteria. The criteria shall include, but not be limited to, the following:
(1) The default record of the corporation.
(2) The number and amount of loans guaranteed by a corporation.
(3) The number and amount of loans made by a corporation if state funds were used to make those loans.
(4) The number and amount of surety bonds guaranteed by a corporation.
(5) The number and amount of other financial product activity.
(6) The number of jobs created or retained due to the financial product activity.
(d) The criteria specified in subdivision (c) shall not apply to a corporation that has been in existence for five years or less. If not already adopted, the bank board shall develop directives and requirements specifying the basis for transferring account funds to those corporations that have been in existence for five years or less.
(e) Any decision made by the program manager pursuant to this section may be appealed to the executive director within 15 days of notice of the proposed action. The executive director may repeal or modify any reallocation and transfer decisions made by the program manager. The appealing corporation shall submit, in writing, the specific area or areas of appeal and set forth any recommendation to the executive director for consideration. The executive director shall render a final decision within five business days of receiving the written appeal.
(f) Any decision made by the executive director shall be appealable in writing to the bank board within 15 days of the executive director's decision, or such longer period as agreed to between the executive director and the corporation. The bank board shall make a final reallocation or transfer decision within 30 days of receiving the appeal, or such longer period agreed to between the executive director and the corporation.
(g) In the event of an appeal under this section, all allocations or transfers of money to trust fund accounts shall be on hold pending resolution by the executive director or bank board, as applicable.

63089.57. Pursuant to this chapter and any directives and requirements adopted pursuant to this chapter, the state has residual interest in the funds deposited by the state to a trust fund account and to the return on these funds from investments. On dissolution, suspension, or termination of the corporation, these funds shall be withdrawn by the program manager from the trust fund account and returned to the expansion fund or temporarily transferred to another trust fund account. This provision shall be contained in the trust instructions to the trustee.

63089.58. Each trust fund account shall consist of a loan guarantee account, and, upon recommendation by the program manager, a bond guarantee account or other financial product account, each of which is a legally separate account, and the assets of one account shall not be used to satisfy loan guarantees or other financial product obligations of another corporation, except when a trust fund account is designated by the program manager to be shared by multiple corporations. The amount of funds allocated to a bond guarantee account shall be pursuant to the directives and requirements. A corporation shall not use trust fund accounts to secure a corporate indebtedness. State funds deposited in the trust fund accounts, with the exception of guarantees established pursuant to this chapter, shall not be subject to liens or encumbrances of the corporation or its creditors.

63089.59. (a) The financial institution or financial company that is to act as trustee of the trust fund shall be designated by the bank. The corporation shall not receive money on deposit to support guarantees or other financial products issued under this chapter without the approval of the program manager.
(b) State funds may not be used to finance an expense incurred by a corporation in a location not approved pursuant to the contract between the bank and the corporation. The prohibition against use of state funds also applies to the location of satellite offices, and the area served from a corporation office.
(c) Except as otherwise provided in this chapter, the trust fund account shall be used solely to make loans, guarantee bonds and loans, and provide other financial products approved by the corporation that meet the financial product criteria of the directives and requirements. Except as provided in subdivision (b) of Section 63089.54, the state or the bank shall not be liable or obligated in any way as a result of the allocation of state moneys to a trust fund account beyond the state moneys that are allocated and deposited in the fund pursuant to this chapter, and that are not otherwise withdrawn by the state pursuant to this chapter.

63089.60. (a) The program manager shall recommend whether the expansion fund and trust fund accounts are to be leveraged, and if so, by how much. Upon the request of the corporation, the program manager's decision may be repealed or modified by the executive director or the bank board.
(b) The amount of guarantee liability outstanding at any one time shall not exceed 10 times the amount of funds on deposit in the expansion fund plus any receivables due from funds loaned from the expansion fund to another fund in state government as directed by the Department of Finance pursuant to a statute enacted by the Legislature, including each of the trust fund accounts within the trust fund.

63089.61. (a) The corporate guarantee shall be backed by funds on deposit in the corporation's trust fund account, or by receivables due from funds loaned from the corporation's trust fund account to another fund in state government, as directed by the Department of Finance pursuant to a statute enacted by the Legislature.
(b) Loan guarantees shall be secured by a reserve of at least 10 percent to be determined by the program manager unless a higher leverage ratio for an individual corporation has been approved pursuant to subdivision (b) of Section 63089.56.
(c) The expansion fund and trust fund accounts shall be used to guarantee obligations and other financial product obligations, to pay the administrative costs of the corporations, and for other uses pursuant to this chapter and Section 8684.2.

63089.62. (a) It is the intent of the Legislature that the corporations make maximum use of their statutory authority to guarantee loans and surety bonds, and administer other financial products, including the authority to secure loans with a minimum loan loss reserve of only 10 percent, unless the program manager authorizes a higher leverage ratio for an individual corporation pursuant to subdivision (b) of Section 63089.56, so that the financing needs of small business may be met as fully as possible within the limits of corporations' trust fund account balance.
(b) Any corporation that serves an area declared to be in a state of emergency by the Governor or a disaster area by the President of the United States, the Administrator of the United States Small Business Administration, or the United States Secretary of Agriculture shall increase the portfolio of loan guarantees where the dollar amount of the loan is less than one hundred thousand dollars ($100,000), so that at least 15 percent of the dollar value of loans guaranteed by the corporation is for those loans. The corporation shall comply with this requirement within one year of the date the emergency or disaster is declared. Upon application of a corporation, the executive director may waive or modify the rule for the corporation if the corporation demonstrates that it made a good faith effort to comply and failed to locate lending institutions in the region that the corporation serves that are willing to make guaranteed loans in that amount.

ARTICLE 6. Corporations, Miscellaneous [63089.65 - 63089.67]

63089.65. (a) A corporation shall establish one or more loan committees, each of which shall be composed of five or more persons, a majority of whom shall be experienced in banking and lending operations.
(b) A loan committee shall review applications to the corporation for a loan or guarantee and shall do each of the following:
(1) Determine the feasibility of the proposed transaction. The loan committee shall recommend approval of the application only upon a determination that there is a reasonable chance that the loan will be repaid.
(2) On the basis of that determination, recommend to the board of directors any action that the loan committee deems appropriate under the circumstances, or, in the event that approval authority has been delegated to the loan committee by the board of directors, approve or disapprove the loan application.
(c) A loan committee shall expeditiously act to accept or reject loan applications.
(d) A person who has a financial interest related to a matter over which the loan committee has authority may not make, participate in making, or in any way attempt to influence that matter.

63089.66. Unless delegated to its loan committee, the corporation's board of directors, upon a recommendation from its loan committee, shall do all of the following:
(a) Emphasize consideration to applications that will increase employment of disadvantaged, disabled, or unemployed persons, or increase employment of youth residing in areas of high youth unemployment and high youth delinquency.
(b) Give consideration to applications from traditional and safety-net providers of Medi-Cal services that will promote access to quality medical care for individuals enrolled in Medi-Cal managed health care networks that are contracting with or owned or operated by a county board of supervisors, a county health commission, or a county health authority organized pursuant to Section 14018.7, 14087.31, 14087.35, 14087.36, 14087.38, or 14087.9605 of the Welfare and Institutions Code.

63089.67. A corporation may charge the borrower or financial institution a loan fee or credit enhancement fee on all loans made or guaranteed by the corporation to defray the operating expenses of the corporation. The amount of the fee shall be determined by the directives and requirements.

ARTICLE 7. Loan Guarantees [63089.70 - 63089.71]

63089.70. (a) The Small Business Expansion Fund, which is hereby continued in existence, shall, among other things, provide guarantees to loans offered by financial institutions and financial companies to small businesses.
(b) The Legislature finds and declares that the Small Business Loan Guarantee Program has enabled participating small businesses that do not qualify for conventional business loans or Small Business Administration loans to secure funds to expand their businesses. These small businesses would not have been able to expand their businesses in the absence of the program. The program has also provided valuable technical assistance to small businesses to ensure growth and stability. The study commissioned by former Section 14069.6 of the Corporations Code, as added by Chapter 919 of the Statutes of 1997, documented the return on investment of the program and the need for its services. The value of the program has also been recognized by the Governor through proposals contained in the May Revision to the Budget Act of 2000 for the 2000–01 fiscal year.
(c) A corporation shall not issue a guarantee under this section unless it determines that the following conditions are satisfied:
(1) There is a low probability that the loan being guaranteed would be granted by a financial company or financial institution under reasonable terms and conditions and the borrower has demonstrated a reasonable prospect of repayment.
(2) The loan proceeds will be used exclusively in this state.

(3) The loan qualifies as a small business loan or an employment incentive loan.
(4) The borrower has a minimum equity interest in the business as determined by the directives and requirements.
(5) As a result of the loan being guaranteed, the jobs generated or retained demonstrate reasonable conformance to any directives and requirements specifying employment criteria.

63089.71. (a) Among other priorities, corporations shall give high priority to the issuance of loan guarantees to small business incubators and to businesses that lease space in incubators.
(b) For the purposes of this section, “incubator” means a facility that allows new small businesses to increase their probability of success by sharing needed capital equipment, services, and facilities, which may include, but are not limited to, the following:
(1) Reception and meeting area.
(2) Secretarial services, such as collating, telephone answering, or mailhandling.
(3) Accounting and bookkeeping services.
(4) Research libraries.
(5) Onsite financial and management counseling.
(6) Parking.
(7) Flexible lease arrangements for flexible space.
(8) Computer or word processing facilities.
(9) Day care facilities.
(10) Office furniture rentals.
(11) A graduation policy sometimes requiring firms to leave after three to five years in a subsidized, nurturing environment.
(12) Employee training and placement services.
(c) Among other priorities, corporations shall give high priority to marketing their services to Phase 1 or Phase 2 Small Business Innovation Research (SBIR) recipients and providing loan guarantees, whenever possible.

ARTICLE 8. Direct Lending and Other Debt Instruments [63089.80- 63089.80.]

63089.80. (a) A corporation may utilize funds for direct lending or other debt instruments pursuant to the directives and requirements.
(b) The amount of funds available for direct lending and other debt instruments shall be determined by the directives and requirements. In its capacity as a direct lender, the corporation may sell in the secondary market the guaranteed portion of each loan, if guaranteed, so as to raise additional funds for direct lending.
(c) To execute the direct loan and other debt instruments authorized pursuant to this chapter, including, but not limited to, those authorized pursuant to Section 63088.5, the bank may loan trust funds to a corporation for the express purpose of lending those funds to an identified borrower. The loan authorized by the bank to the corporation shall be on terms similar to the loan between the corporation and the borrower.
(d) The amount of the loan, made to the corporation by the bank, may be in excess of the amount of a loan to any individual borrower, but actual disbursements pursuant to the bank loan agreement shall be required to be supported by a loan agreement between the borrower and the corporation in an amount at least equal to the requested disbursement. The loan between the bank and the corporation shall be evidenced by a credit agreement. In the event that any loan between the corporation and borrower is not guaranteed by a governmental agency, the portion of the credit agreement attributable to that loan shall be secured by assignment of any note, executed in favor of the corporation by the borrower to the bank. The terms and conditions of the credit agreement shall be similar to the loan agreement between the corporation and the borrower, which shall be collateralized by the note between the corporation and the borrower.
(e) In the absence of fraud on the part of the corporation, the liability of the corporation to repay the loan to the bank is limited to the repayment received by the corporation from the borrower, except in a case where the United States Department of Agriculture requires exposure by the corporation in rule or regulation. The corporation may use trust funds for loan repayment to the bank if the corporation has exhausted a loan loss reserve created for this purpose. Interest and principal

received by the bank from the corporation shall be deposited into the same account from which the funds were originally borrowed.
(f) Upon the approval of the program manager, a corporation shall be authorized to borrow trust funds from the bank for the purpose of relending those funds to small businesses. A corporation shall demonstrate to the program manager that it has the capacity to administer a direct loan program, and has procedures in place to limit the default rate for loans to startup businesses. The percentage of any trust fund account to be used for the direct lending pursuant to this subdivision shall be established in the directives and requirements.
(g) A corporation shall not issue a direct loan or other debt instrument unless and until it determines that all of the following conditions are satisfied:
(1) The direct loan or other debt instrument assistance would not be granted by a financial company or financial institution under reasonable terms and conditions and the borrower has demonstrated a reasonable prospect of repayment.
(2) The direct loan or debt instrument proceeds will be used exclusively in this state.
(3) The direct loan or debt instrument qualifies as a small business loan or employment incentive loan.
(4) The borrower has a minimum equity interest in the business as determined by the directives and requirements.
(5) As a result of the direct loan or other debt instrument, the jobs generated or retained demonstrate reasonable conformance to any directives and requirements specifying employment criteria.
(h) The maximum direct loan or other debt instrument amount to a small business shall be set by the directives and requirements. In the absence of fraud on the part of the corporation, the repayment obligation pursuant to the loan or other debt instrument to the corporation shall be limited to the amount of funds received by the corporation for the direct loan or other debt instrument to the small business and any other funds received from the bank that are not disbursed. The corporation shall be authorized to charge a fee to the small business borrower, in an amount determined pursuant to the directives and requirements. The programs and debt instruments provided for in this article shall be available in all geographic areas of the state.

ARTICLE 9. Disaster Loan Guarantees [63089.90- 63089.90.]

63089.90. (a) Pursuant to Section 8684.2 and the contract between a corporation and the bank, a corporation may, in an area affected by a state of emergency within the state and declared a disaster by the President of the United States, the Administrator of the United States Small Business Administration, or the United States Secretary of Agriculture, or declared to be in a state of emergency by the Governor of California, provide loan guarantees from funds allocated in Section 63089.55 to small businesses, small farms, nurseries, and agriculture-related enterprises that have suffered actual physical damage or significant economic injury as a result of the disaster.
(b) The bank board may adopt directives and requirements to implement the disaster loan guarantee program authorized by this section. Any regulations adopted under Chapter 1 (commencing with Section 14000) of Part 5 of Division 3 of Title 1 of the Corporations Code shall remain in effect until the bank adopts directives and requirements, however, these regulations shall have no effect after June 1, 2015.
(c) A corporation shall not issue a disaster loan guarantee unless and until it determines that the following conditions are satisfied:
(1) The borrower cannot reasonably obtain a disaster loan without some form of credit enhancement.
(2) The borrower has demonstrated a reasonable prospect of repayment.
(3) The guaranteed loan will be used exclusively in this state.
(4) The disaster loan qualifies as a small business loan or employment incentive loan.
(d) Allocations pursuant to subdivision (a) shall be deemed to be for extraordinary emergency or disaster response operations costs incurred by the issuance of disaster loan guarantees.

ARTICLE 10. Surety Bond Guarantees [63089.95 - 63089.96]

63089.95. In furtherance of the purposes set forth in Section 63088.1 of this code and Section 14001 of the Corporations Code, a corporation may do any one or more of the following activities, but only to the extent that the activities are authorized pursuant to the contract between the bank and corporation: guarantee, endorse, or act as surety on the bonds, notes, contracts, or other obligations of, or assist financially, any person, firm, corporation, or association, and may establish and regulate the terms and conditions with respect to any such guarantees or financial assistance and the charges for interest and service connected therewith, except that the corporation shall not make or guarantee any loan, unless and until it determines:
(a) There is a low probability that the surety bond would be granted by a financial institution or financial company under reasonable terms or conditions, and the beneficiary has demonstrated a reasonable prospect of successful completion of the project.
(b) The surety bond project coverage will be used exclusively in this state.
(c) The beneficiary has a minimum equity interest in the business as determined by the directives and requirements.
(d) As a result of the surety bond, the jobs generated or retained demonstrate reasonable conformance to the directives and requirements specifying employment criteria.

63089.96. (a) In addition to the authority granted by Section 63089.95, pursuant to the directives and requirements a corporation may act as guarantor on a surety bond for any small business contractor, including, but not limited to, women, minority, and disabled veteran contractors.
(b) The provisions of subdivision (a) allowing a corporation to act as a guarantor on surety bonds may be funded through appropriate state or federal funding sources. Federal funds shall be deposited in the Federal Trust Fund in the State Treasury in accordance with Section 16360, for transfer to the expansion fund.

ARTICLE 11. Reporting [63089.97 - 63089.98]

63089.97. Each corporation shall provide to the program manager, in a format prescribed by him or her, the following data and reports:
(a) A summary of all outstanding loans, bonds, and other credit enhancements to which a corporation guarantee, as authorized by this chapter, is attached, on a schedule determined by the program manager.
(b) A summary of all outstanding direct loans and other debt instruments made by a corporation, as authorized by this chapter, on a schedule determined by the program manager.
(c) A summary of all outstanding other financial project obligations made by a corporation, as authorized by this chapter, on a schedule determined by the program manager.
(d) Statement of economic interests from each designated person pursuant to Section 87302.
(e) No later than July 31 of each fiscal year, commencing January 1, 2014, each of the following documents:
(1) A copy of the corporation board approved budget for the current fiscal year.
(2) Projected fiscal year summary of authorized program activities including direct loans, loan guarantees, bond guarantees, and other financial product activity supported by the expansion fund.
(3) A copy of the written plan of operation or strategic plan for the current fiscal year as approved by the corporations board of directors.
(4) A copy of the current and valid articles of incorporation and bylaws of the corporation with noted amendments from the prior fiscal year.
(f) No later than October 31 of each year commencing January 1, 2014, a copy of the corporation's prior fiscal year audit, auditor findings, if any, and finding responses.
(g) A list by city and county of the number and dollar value of all credit enhancements and debt instruments the corporation entered into, pursuant to this chapter, during the report year, and that are outstanding at the close of the fiscal year.
(h) Any other statistical and other data, reports, or other information required by the directives and requirements or the program manager.

63089.98. (a) Annually, not later than January 1 of each year commencing January 1, 2014, and notwithstanding Section 10231.5, the program manager shall prepare and submit to the Governor and the Legislature, pursuant to Section 9795, a report for the preceding fiscal year ending June 30, containing the expansion fund and trust fund financial product activity of each corporation, including all of the following:
(1) Direct loans, guarantees, and other financial products awarded and outstanding balances.
(2) Default and loss statistics.
(3) Employment data.
(4) Ethnicity and gender data of participating contractors and other entities, and experience of surety insurer participants in the bond guarantee program.
(5) Geographic distribution by city and county of the direct loans, guarantees, and other financial products awarded and outstanding at the close of the fiscal year.
(6) Significant events.
(b) The program manager shall post the report on the bank's Internet Web site.