Small Business Finance Center

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK

ANNUAL REPORT

2018-2019 EDITION

IBANK SMALL BUSINESS FINANCE CENTER ANNUAL REPORT TO THE GOVERNOR AND LEGISLATURE

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OUR YEAR

The California Small Business Finance Center (SBFC or Finance Center) is a unit within the California Infrastructure and Economic Development Bank (IBank). We have the unique and exciting responsibility of managing a small business loan guarantee program, a disaster relief guarantee program and more.

We work with our partner Financial Development Corporations throughout the state to guarantee loans because the SBFC exists to ensure Californians have greater access to capital. We remove barriers where possible and help people turn ideas, innovations and dreams into reality.

Everyone in the world has an idea of what the "California Dream" means. Sole proprietorships make up the largest component of businesses in California and recent studies found that net job growth was strongest in businesses with fewer than 20 employees. This fiscal year we guaranteed 579 loans, resulting in more than $223 million in loan guarantees that supported more than $317 million in small business loans.

This guarantee activity contributed to more than $509 million of overall capital injected into the state's small business community. Small business owners reported 15,780 jobs created or retained because of these loan guarantees. Simply put loan guarantees help more people get loans, which help create and grow business.

The businesses served are as varied as the regions in this great state. They included green projects or goods, animal services or products, cupcake shops (our personal favorites), trucking companies, dress shops, businesses that support fire cleanup and reconstruction and so much more. We share profiles of these businesses on our transparency portal: https://IBankCA.OpenGov.com

We serve the State of California in a way that helps define the California Dream for more people.

Emily Burgos, Small Business Finance Center Manager

SMALL BUSINESS FINANCE CENTER HISTORY

A humble beginning...

Originally known as the Small Business Loan Guarantee Program (SBLGP), the SBFC received seed money in 1968 in an effort to reduce unemployment by supporting entrepreneurship and small businesses. The Finance Center promotes statewide economic development by increasing opportunities for entrepreneurs, the self-employed, microbusiness and small business owners to have better access to capital and other technical resources. The SBFC provides credit enhancement in the form of loan guarantees (for both regular operations and disaster recovery, and historically for surety bonds), direct loans to farmers, direct loans to low-wealth entrepreneurs in low-wealth communities and technical assistance. Because of the Finance Center programs, small businesses are able to secure financing that allows growth and expansion of their business.

An influx of federal dollars...

In April of 2011, the State of California was awarded an allocation of $168 million in federal funds from the U.S. Treasury under the State Small Business Credit Initiative (SSBCI), a component of President Obama's Small Business Jobs Act of 2010. California received more SSBCI funds than any other state or territory. The allocation was split between two state agencies, The State Treasurer’s Office for its California Capital Access Program (CalCAP) and Business Transportation and Housing (BTH) for the SBLGP. Each agency received half or about $84 million in three disbursements between 2011 and 2015.

A new name and a new home...

The Finance Center has had many homes through the decades, including Employment Development Department, Department of Economic and Business Development, Department of Technology, Trade and Commerce, and Business, Transportation, and Housing. Through the Governor Brown's Reorganization Plan, the program transferred to the Governor's Office of Business and Economic Development. The Small Business Financial Assistance Act of 2013 placed the SBLGP under IBank and renamed it the Small Business Finance Center to accurately represent its many functions.

To learn more about IBank's other programs, check out the IBank Annual Report here: www.IBANK.CA.GOV

This Annual Report is created pursuant to California Government Code 63089.98, which reads: (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.

PARTNERSHIP WITH FINANCIAL DEVELOPMENT CORPORATIONS

Financial Development Corporations (FDCs) were created in the California Corporations Code to aid the SBFC in the administration of its programs throughout the state, together removing barriers to access capital. Historically, as many as eleven FDCs had contracts with the State of California. After assessing the effectiveness of the services provided by each FDC, IBank offered contracts to seven for FY 18/19. Per the statute, each FDC is a nonprofit corporation with general responsibilities for marketing and administering SBFC programs. As mission-based organizations, the FDCs aim to support small business and stimulate economic growth in underserved communities.

The FDCs are strategically located throughout the state with satellite offices that reach even further.

California Capital Financial Development Corporation
Founded: 1982
Locations: Sacramento, Stockton, Yuba City

California Coastal Rural Development Corporation
Founded: 1981
Locations: Salinas, Santa Maria, Santa Barbara

California Southern Small Business Development Corporation
Founded: 1989
Location: San Diego

Nor-Cal Financial Development Corporation
Founded: 1978
Location: Oakland

Pacific Coast Regional Small Business Development Corporation
Founded: 1977
Locations: Los Angeles, Compton

Small Business Development Corporation of Orange County
Founded: 2001
Locations: Santa Ana, Redlands

Valley Small Business Development Corporation
Founded: 1981
Locations: Fresno, Hanford, mobile office covers Central San Joaquin Valley

Collectively, the FDCs have 1,130 years of lending expertise on staff and more than 525 years serving the SBFC directly. While each FDC is unique, as a group they: utilize a combination of federal, state, local and private resources; are highly rated by their partners; and provide non-conventional, community-development financing in low- to moderate- income areas including agricultural loans to small tenant farmers in substantially rural areas. Not only are the FDCs experts in their field, many of them are also lenders, and administer other programs for governmental and financial partners including:

Certifications and Designations

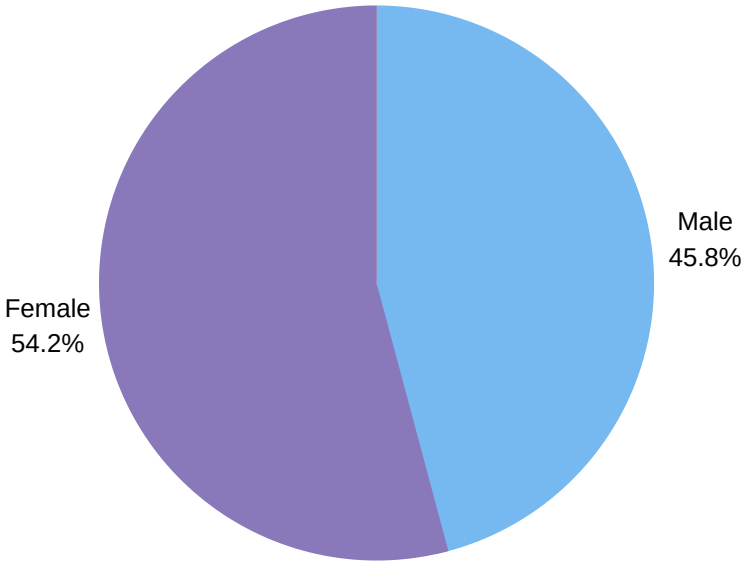
- Community Development Financial Institution – certified by U.S. Treasury
- Community Development Financial Institution – certified by California Organized Investment Network (COIN)
- Women's Business Center
- Procurement Technical Assistance Center (PTAC)
- Community Development Entity – certified by U.S. Treasury
- Promise Zone – lead economic development implementation partner
- Small Business Development Center

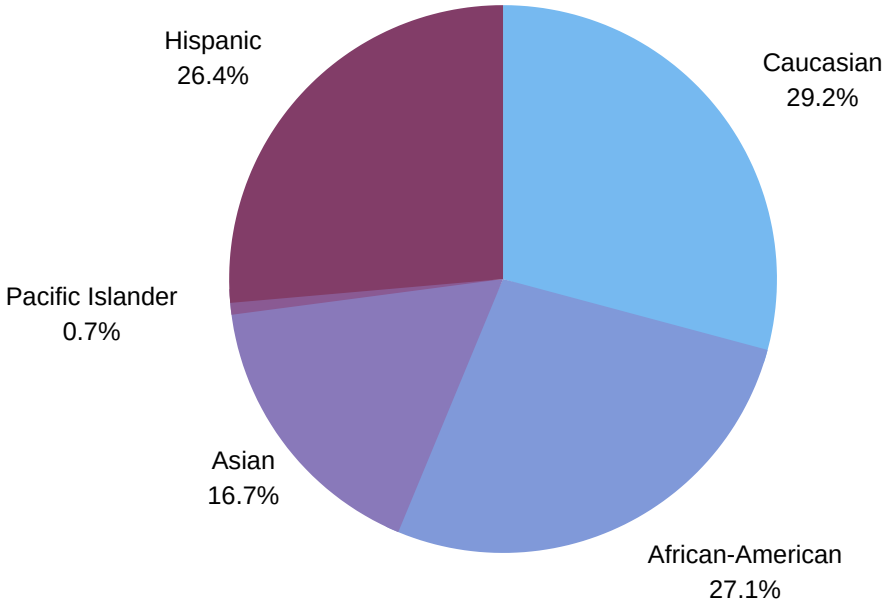
Loan, Grant and Technical Assistance Programs

- U.S. Department of Commerce Economic Development Administration (EDA) Revolving Loan Fund – for small business lending
- U.S. Department of Commerce Economic Development Administration (EDA) Revolving Loan Fund – for disaster recovery and mitigation
- U.S. Small Business Administration (SBA) Community Advantage (7a) Loan Program
- U.S. Small Business Administration (SBA) Micro Loan Program
- U.S. Small Business Administration (SBA) 504 Loan Program
- U.S. Department of Agriculture (USDA) Intermediary Relending Program
- U.S. Department of Agriculture (USDA) Farm Service Agency (FSA) Loan Guarantee Program
- U.S. Department of Agriculture (USDA) Rural Microentrepreneur Assistance Programs
- Community Reinvestment Micro Loans – with grants from financial partners
- Entrepreneur Loan Fund Micro Loan Program – in partnership with a financial institution
- State Water Resources Control Board Repair and Removal of Underground Storage Tank (RUST) Loan Program
- Metro Business Interruption Fund – in partnership with the Los Angeles Metropolitan Transportation Authority
- Various technical assistance programs with funding from financial institutions and local partners
- Various revolving loan funds with funding from financial institutions and local partners

Beyond facilitating loan programs and technical assistance, FDCs leverage local and statewide partnerships to ensure small businesses have access to the resources they need. FDC staff members also are active participants in their communities and in economic development. They speak a wide variety of languages and many are small business owners themselves. They donate their time to leadership positions on boards, loan committees, and audit committees for local chambers, community organizations and economic development groups. Staff members come from a wide range of backgrounds and are representative of the communities where they are located.

SMALL BUSINESS FINANCE CENTER FDC PARTNER STAFF DEMOGRAPHICS: DIVERSE PARTNERS IN A DIVERSE STATE





FISCAL YEAR 18/19 RESULTS

Small Business Loan Guarantee Program (SBLGP):

The Small Business Loan Guarantee Program incentivizes lenders to make loans to small businesses by offering guarantees up to 80% of eligible loan amounts. The loans can be up to $20 million, with a maximum guarantee of $2.5 million. In the event of a default, the lender liquidates the collateral, and then files a claim for the percentage in the guarantee agreement for the remaining balance of the loan. This process allows lenders to mitigate risk when making small business loans, thereby stimulating the economy with a combination of public/private funds. As a result, participating small businesses are able to secure financing for the growth and expansion of their business.

579

The number of loans made in FY 2018-2019 in the Small Business Loan Guarantee Program

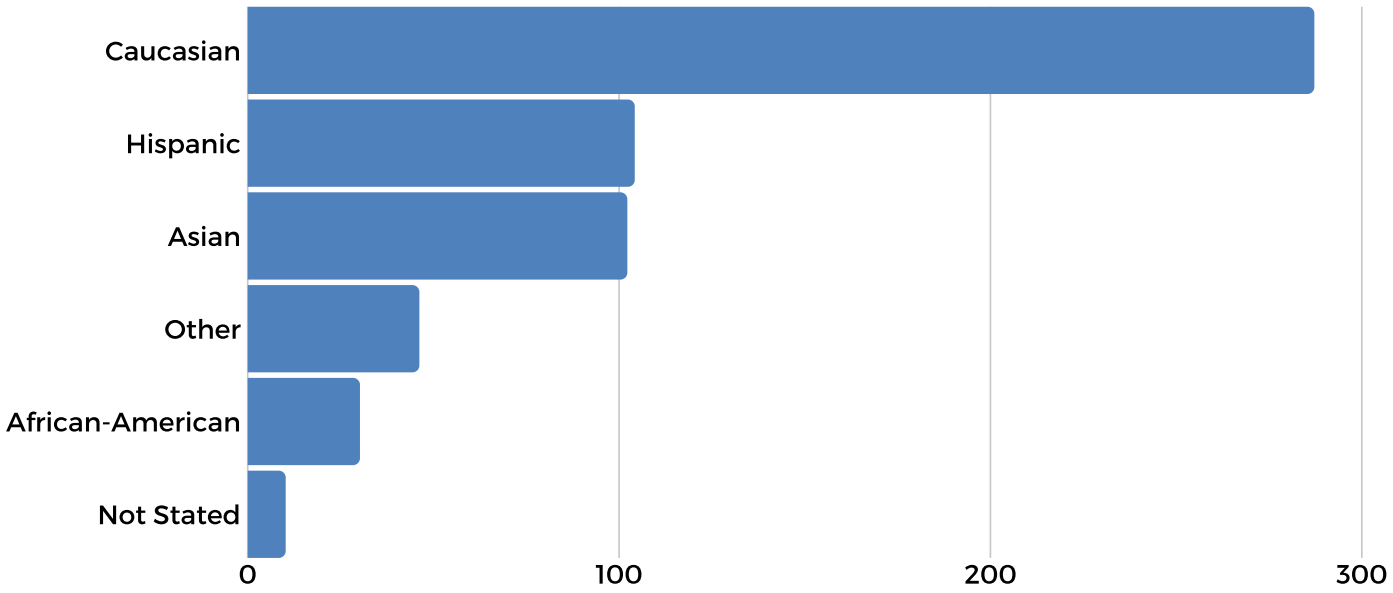
$509.6 million

Overall capital injected into the state's small business community

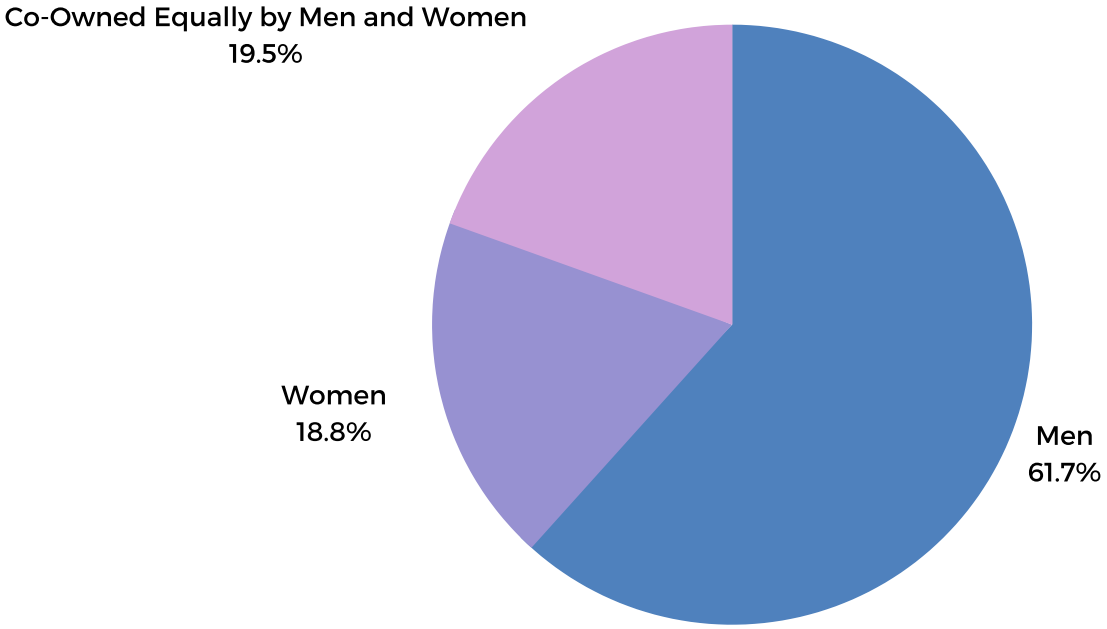
Number of Guaranteed Loans:

In FY 18/19, 579 loans were made resulting in more than $223 million of loan guarantees supporting nearly $317.2 million in small business loans. This guarantee activity contributed to more than $509.6 million of overall capital injected into the state's small business community. The small business owners reported 15,780 jobs created or retained because of these loan guarantees.

Ethnicity of Loan Guarantee Recipients



Gender of Loan Guarantee Recipients

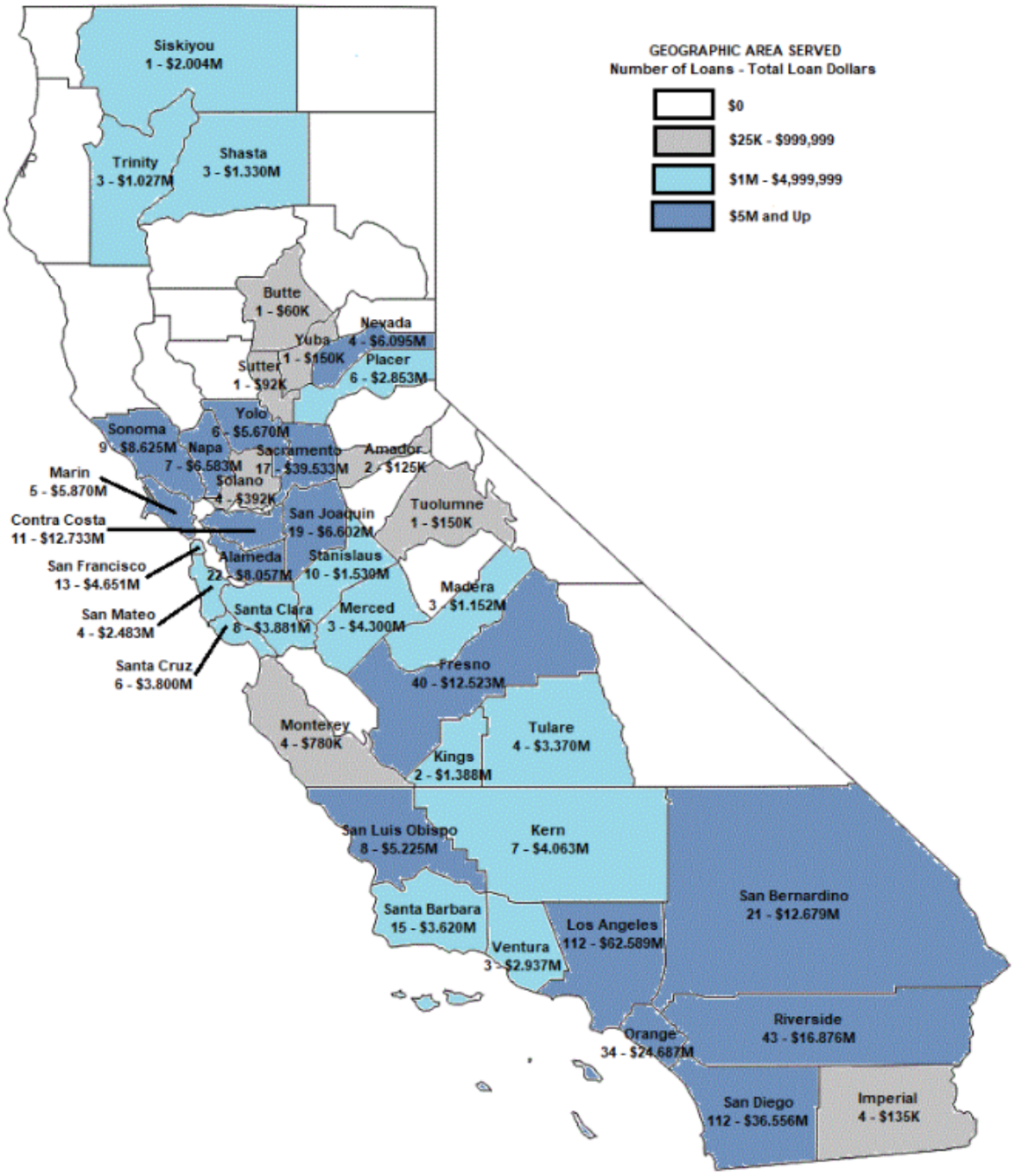


Loan Guarantee Loss Experience: Federal and State Funded Programs

For FY 18/19, the SBLGP paid 21 claims amounting to $1.9 million during the fiscal year. The losses were 2% of the reserve account and only 0.29% of the $673 million loan outstanding principal.

Number of Guarantee Payments	Default Payments	Default Recoveries	30-Jun-19 Guarantee Reserve	Net Loss Rate on Reserve	30-Jun-19 Outstanding Loan Principal	Net Loss Rate on Loan Principal
21	$1,922,310.46	$114,951.55	$94,262,560	2%	$673,265,821	0.29%

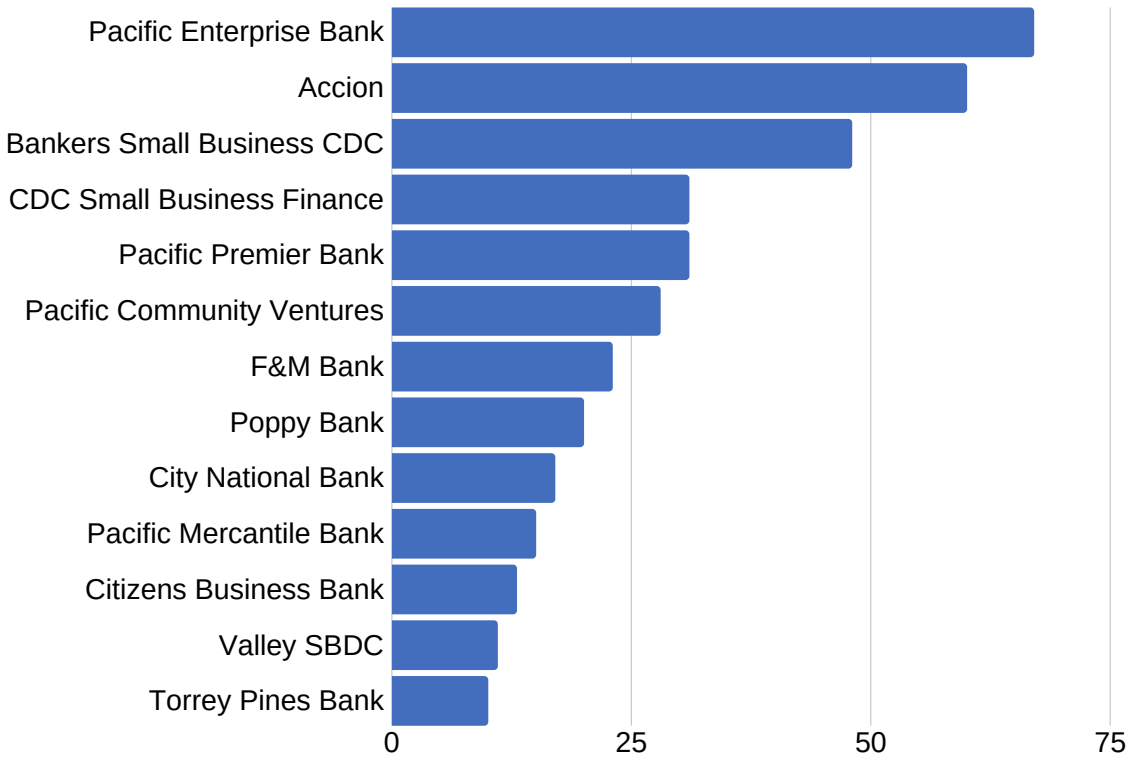
Map of Geographic Distribution of Loan Activity for FY 18/19



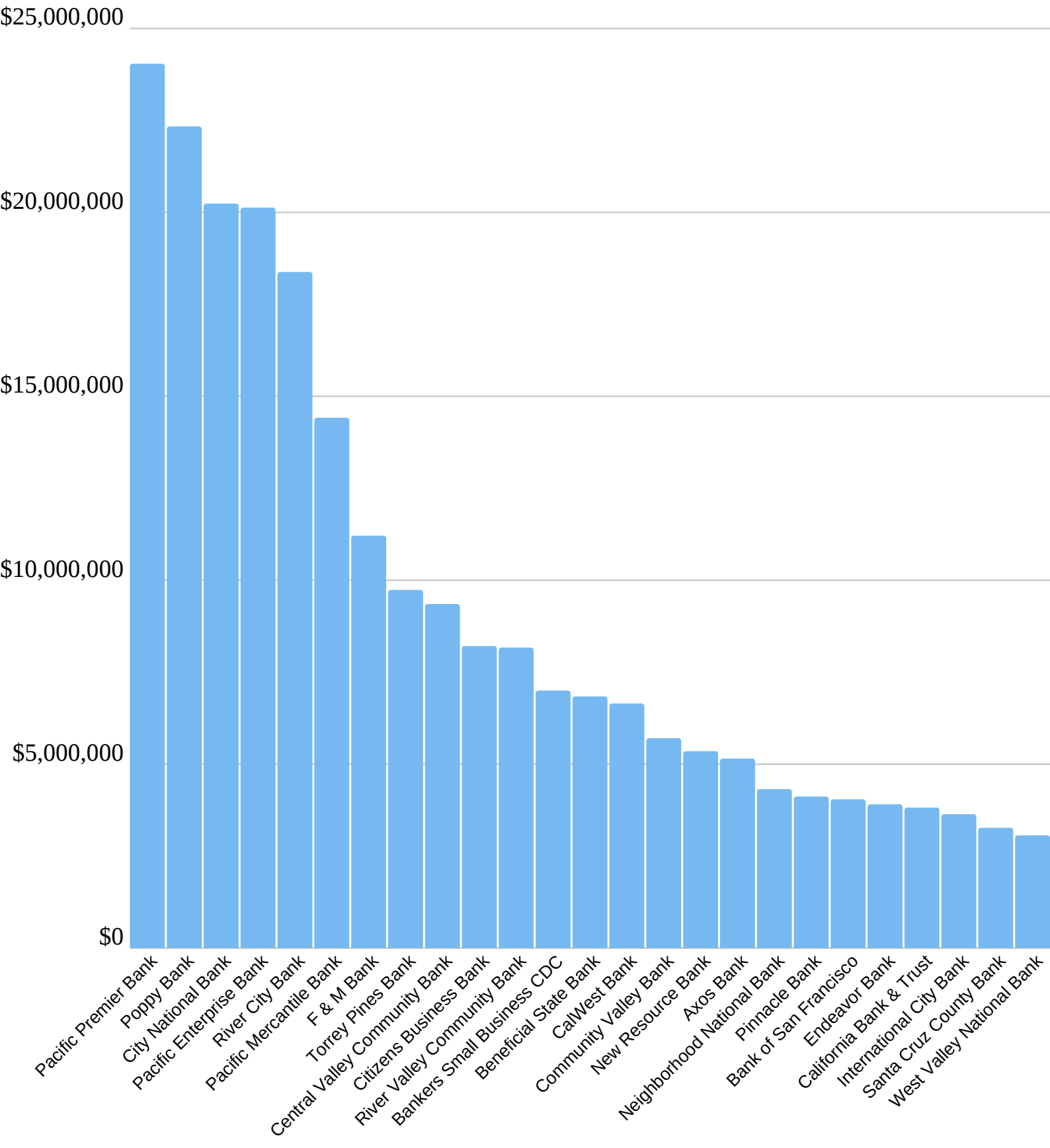
SBLGP Production by FDC

FDC Name	Loan Amount	Initial Guarantee Liability	Total Financial Package	Jobs Created and Retained
California Capital	$34,997,592.18	$27,032,513.14	$85,179,429.18	1649
California Coastal	$17,036,550.00	$13,074,240.00	$17,898,850.00	709
California Southern	$32,639,700.04	$23,869,939.76	$51,578,577.00	1678
Nor Cal	$75,115,961.86	$50,633,986.95	$83,425,809.00	3682
Orange County	$105,143,394.00	$67,336,077.00	$201,604,379.00	5580
Pacific Coast	$24,622,310.00	$19,140,898.00	$38,512,115.02	1103
Valley	$27,618,990.00	$21,915,192.00	$31,433,590.00	1379
Totals	**$317,174,498.10**	**$223,002,846.90**	**$509,632,749.20**	**15,780**

Top Financial Institution Users of SBLGP: California's Top Lenders by Number of Loans, FY 18/19



Top Financial Institution Users of SBLGP: California's Top Lenders by Dollars Loaned, FY 18/19



Farm Loan Program: Direct Lending

The Farm Loan Program supports direct loans to small farms in California through participating Corporations that are also approved lenders of the U.S. Department of Agriculture, Farm Services Agency (FSA) that guarantees up to 90% of those loans.

Historically, three FDCs have requested and were approved to use the Farm Loan Program.

Two of the FDCs in FY 18/19 utilized the Farm Loan Program.

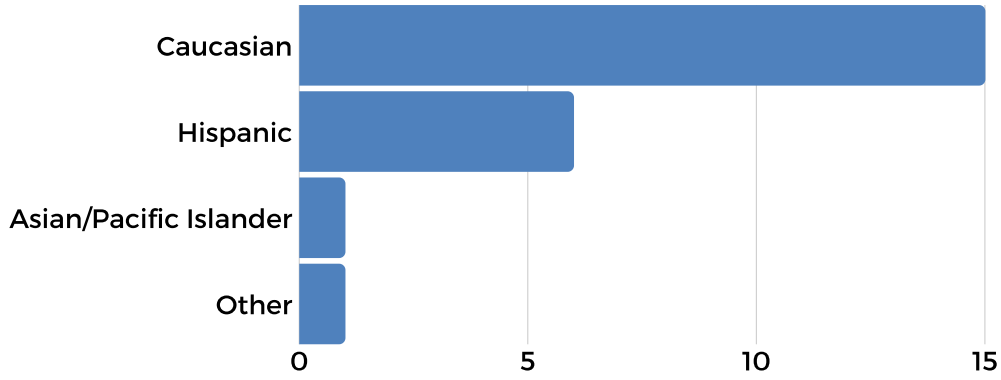
FDC Name	Number of New Direct Loans	Amount of New Direct Loans	Number of Jobs Created or Retained
Valley	7	$1,373,745.00	102

FDC Name	Number of Historic Loans Purchased	Amount of Historic Loans Purchased	Number of Jobs Created or Retained
CalCoastal	16	$6,160,958.97	376

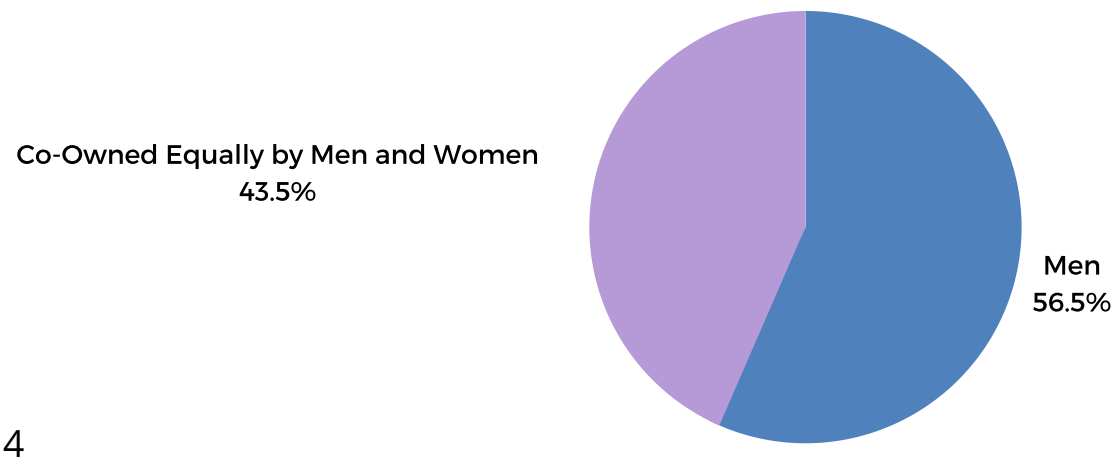
Total Outstanding Disbursements*	Total Outstanding Balance in the Trust Fund	Number of Defaults
$2,045,521.94	$4,344,866.25	0

*outstanding disbursements are those amounts obligated, and not yet disbursed, of all open farm loans.

Ethnicity of Farm Loan Recipients



Gender of Farm Loan Recipients



Jump Start: Direct Lending and Technical Assistance

On September 27, 2016, the IBank Board approved the establishment of the Jump Start Loan Program, a new micro-loan and technical assistance program targeting low-wealth entrepreneurs in low-wealth communities and aiming to make more small business loans available to entrepreneurs in commonly under-represented groups such as women, persons of color, veterans, the disabled and the previously incarcerated. Small businesses in low-wealth communities typically lack access to capital, technical assistance resources, and the business training needed to successfully start and operate a business.

These businesses would not qualify for traditional bank financing or IBank's SBLGP because they are too new, too small or do not have technical business training. To help remedy the financial disparity suffered by these entrepreneurs, IBank created the Jump Start Loan Program and contracted with five Financial Development Corporations (Jump Start FDCs) that have proven experience with micro-lending in low-wealth communities to provide credit underwriting, loan disbursement, and servicing, as well as technical assistance and financial training to potential small business borrowers.

All of the services provided by the Jump Start FDCs are essential to sustaining successful small businesses and long term economic growth. The IBank Board approved an initial allocation of $2 million for the Jump Start Program with $1 million for direct loans and $1 million for technical assistance and administrative costs. With initial contracts executed in Fiscal Year 16/17, the Jump Start FDCs began providing technical assistance to potential Jump Start borrowers. In Fiscal Years 17/18 and 18/19 Jump Start FDCs began making Jump Start Loans and continued providing technical assistance to new and existing businesses.

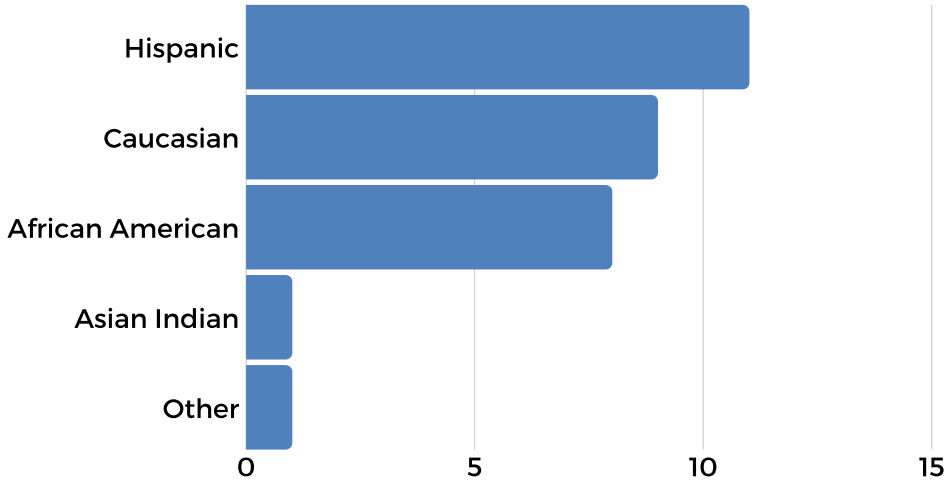
$265,000
Total Jump Start Loan Amount

30
Total Number of Jump Start Loans

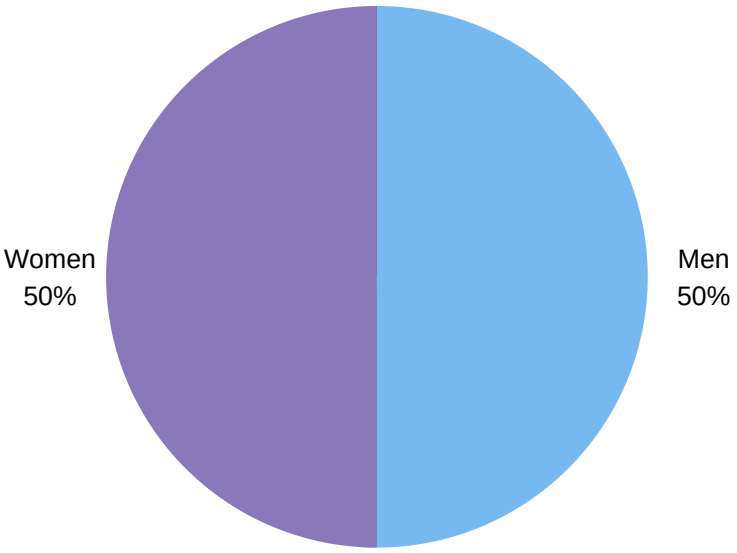
905.62
Total Hours of Technical Assistance Provided to Jump Start Loan Applicants

309
Total Number of Businesses that Received Jump Start Loan Technical Assistance

Ethnicity of Jump Start Loan Recipients



Gender of Jump Start Loan Recipients



SIGNIFICANT EVENTS OF FY 18/19

BAAQMD Clean Tech Finance Pilot Project:

In FY 18/19, the SBFC executed a contract with the Bay Area Air Quality Management District (BAAQMD) to offer subsidized financing for private facilities to adopt emerging technologies that reduce greenhouse gas emissions. BAAQMD transferred $1 million to the SBFC for the Climate Tech Finance Program to enhance the SBLGP and offer 90% guarantees on eligible projects. Small businesses can apply for loan guarantees on loans up to $20 million, with a maximum guarantee of $2.5 million. BAAQMD provides engineering evaluation and technical assistance to borrowers to evaluate proposed projects to ensure they meet the goals of the program.