



California Infrastructure and
Economic Development Bank

**Annual Report
to the
Governor
and Legislature**

**CALIFORNIA SMALL BUSINESS
FINANCE CENTER**

**SMALL BUSINESS LOAN GUARANTEE
PROGRAM**

2014-2015



**TEVEIA R. BARNES
EXECUTIVE DIRECTOR AND
PROGRAM MANAGER**

**1325 J Street, Suite 1823
Sacramento, California 95814**

TABLE OF CONTENTS

Introduction	1
Background	1
Fiscal Year 2014-2015 Results	2
Demographic Distribution: Ethnicity and Gender Data	3
Loan Guarantee Loss Experience	4
Significant Events	4
Conclusion	5
Appendix-Tables 1-4	

SMALL BUSINESS LOAN GUARANTEE PROGRAM

Fiscal Year 2014-2015 Annual Report

Introduction

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

- Direct loans, guarantees, and other financial products awarded and outstanding balances.
- Default and loss statistics.
- Employment data.
- Ethnicity and gender data of participating contractors and other entities, and experience of surety insurer participants in the bond guarantee program.
- Significant events.

Background

The California Small Business Loan Guarantee Program (SBLGP) promotes statewide economic development by providing collection guarantees that serve as a credit enhancement and incentive to financial institutions for loans issued to small businesses that otherwise would not qualify for a term loan or line of credit. As a result of the SBLGP, participating small businesses are able to secure financing that allows growth and expansion of their business.

In addition to collection guarantees for term loans and lines of credit, the Small Business Finance Center features direct farm loans to help growers who cannot obtain conventional bank financing. The farm loans are guaranteed by the U. S. Department of Agriculture. There is also a Disaster Relief Program and Surety Bond Guarantee Program, neither of which had any activity this fiscal year.

The State of California (State) was approved for 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. The allocation was split between two State agencies, with the SBLGP under IBank to receive half or about \$84 million in three disbursements (tranches). The SSBCI funds have unique requirements. Consequently, the SSBCI-funded loan guarantees are administered separately as a subset of the SBLGP. Thus, since 2011, the SBLGP has consisted of two subsets: the state-funded portion of the SBLGP program and the federal SSBCI-funded portion.

Historically, eleven Financial Development Corporations (FDCs) had contracts with the State pursuant to the California Corporations Code (starting with section 14000, and referred to as the California Small Business Financial Development Corporation Law) to administer guarantees under

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

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

After assessing the effectiveness of the services provided by each FDC, IBank offered contracts to the following nine FDCs for FY 2014-15:

- California Capital Small Business Financial Development Corporation
- California Coastal Rural Development Corporation
- California Southern Small Business Development Corporation
- Hancock Small Business Financial Development Corporation
- Northern California Financial Development Corporation
- Small Business Financial Development Corporation of Orange County
- Pacific Coast Regional Small Business Development Corporation
- State Assistance Fund for Enterprise, Business and Industrial Development Corporation
- Valley Small Business Development Corporation



With the help of Pacific Coast Regional Financial Development Corporation, Ednovate's University of Southern California East College Prep received a small business loan from Pacoima Development Credit Union, guaranteed by IBank. Ednovate's schools help disadvantaged students graduate from high school and go on to college. Shown are students in the computer lab.

Fiscal Year 2014-2015 Results

As part of the Small Business Jobs Act of 2010 and federal SSBCI requirements, the State was required to utilize at least 80% of the federal SSBCI funds before the State could request the third and final disbursement from the U.S. Treasury. The SBLGP has been giving priority to the SSBCI program since February 2011 to ensure the utilization of the first and second tranche of federal funds as quickly as possible. With the demand for capital increasing, the State was successful in meeting the 80% utilization of federal funds in May 2015 and subsequently requested the third and final tranche of funding from U.S. Treasury.*

*SSBCI third and final tranche under the Small Business Jobs Act of 2010 was received by the State in August 2015.



With the help of the Small Business Financial Development Corporation of Orange County, Family Service Association (FSA) located in the Inland Empire, received a small business loan from Banc of California in Irvine, guaranteed by IBank. Shown here is FSA's Mobile Fresh Bus that serves fresh groceries to low-income seniors and families.

Number of Guaranteed Loans in SSBCI program

In FY 2014-15, a total of 252 SSBCI loans were made resulting in \$92.8 million of loan guarantees supporting \$130.1 million in small business loans. This guarantee activity contributed to a total of \$211,617,415 of overall capital that was injected into the State's small business community. In addition, the borrowers reported 11,781 jobs were created or retained during this period as a result of these loan guarantees.

Since its inception in February 2011 through June 30, 2015, there have been 872 loan guarantees issued in California under SSBCI for approximately \$233.5 million in guarantees. The small business owners reported over 30,611 jobs created or retained during this period as a result of these loan guarantees.

Number of Guaranteed Loans in State-funded program

During the fiscal year ending June 30, 2015, the State-funded program was limited to guarantee renewals within the managed SBLGP portfolio and guarantees that did not meet the requirements in the federal SSBCI program. In FY 2014-15, a total of 124 loans were made resulting in \$21.1 million of loan guarantees supporting \$37.4 million in small business loans. This guarantee activity contributed to a total of \$197,393,686 of overall capital that was injected into the State's small business community. The small business owners reported 2,813 jobs created or retained as a result of these loan guarantees.



California Capital Financial Development Corporation assisted Chicago Fire Pizzeria to receive a small business loan to open a new restaurant in Elk Grove. The loan was made by Community Business Bank in West Sacramento and was guaranteed by IBank. The loan added 70 jobs to Chicago Fire Pizzeria's current 230 employees. Shown is the location in downtown Folsom.

Demographic Distribution: Ethnicity and Gender

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

Ethnic Background of Loan Guarantee Recipients

The figures represent both the Federal and State Loan Guarantee Programs for FY 2014-15

Ethnicity	Number of Recipients	Percentage
Caucasian	236	62.77%
Asian/Pacific Islander	32	8.51%
Hispanic	35	9.31%
African American	12	3.19%
Asian Indian	17	4.52%
Native American	3	0.80%
Other	41	10.90%
TOTAL	376	100.0%

Gender of Loan Guarantee Recipients

The figures represent both the Federal and State Loan Guarantee Programs for FY 2014-15

Gender	Number of Recipients	Percentage
Men	243	64.63%
Women	64	17.02%
Co-owned Equally by Men and Women	69	18.35%
TOTAL	376	100.00%

SBLGP Loan Guarantee Loss Experience: State-Funded Program

For the fiscal year 2014/2015, the State funded SBLGP had significantly fewer losses than previous years. IBank paid out \$457,331 in claims while recovering \$164,633. This resulted in losses of less than 1% in the program on the reserve account and about one third of a percent of the outstanding principal amount of the loans.

Default Payments	Default Recoveries	30-Jun-15 Guarantee Reserve	Net Loss Rate on Reserve	30-Jun-15 Outstanding Loan Principal	Net Loss Rate on Loan Principal
\$457,331	\$164,633	\$30,330,779	0.97%	\$86,644,768	0.34%

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

For the fiscal year 2014/2015, the federally funded SBLGP had miniscule losses compared to the amount of lending. IBank paid claims amounting to \$40,383 during the entire fiscal year. The losses were a mere .08% of the reserve account and only .02% of its over \$210 million outstanding principal.

Default Payments	Default Recoveries	30-Jun-15 Guarantee Reserve*	Net Loss Rate on Reserve	30-Jun-15 Outstanding Loan Principal	Net Loss Rate on Loan Principal
\$40,383	\$0	\$48,611,868	0.08%	\$210,599,372	0.02%

* Total does not include \$5 million on loan to CPCFA as of June 30, 2015.

Significant Events

The ending of fiscal year 2014-15 marks 53 months working with the SSBCI federally-funded program. As part of the federal award, funds totaling \$167.8 million will be shared between the California Small Business Loan Guarantee Program and the California Pollution Control Financing Authority (CPCFA). CPCFA is a financing agency within the State Treasurer's Office which provides loan insurance for small businesses and nonprofits. A total of \$83,481,262.50 will be available to SBLGP under the SSBCI program. The initial SSBCI allocation (1st tranche) from the U.S. Treasury totaled \$55,645,861 was received in FY 2010-11 (February 2011) and divided equally, with each agency receiving \$27,822,930.50. The second SSBCI tranche of \$55,218,250 was received by the State Treasurer's Office in December 2013. The SBLGP received \$27,413,805.41 of the 2nd tranche, and are entitled to collect an additional \$195,319.59 still held at the Treasurer's Office.

Between IBank and CPCFA, the State was successful in receiving the third and final tranche of federal funds in August 2015 in the amount of \$56,891,530, of which IBank is entitled to \$28,049,207.00.

Fiscal year 2014-15 marked the second year that the CA Small Business Loan Guarantee Program was placed under the Governor’s Office of Business and Economic Development. On October 13, 2013, with the enactment of AB 1247, the program was placed under IBank. IBank hired a Chief Compliance Officer this fiscal year to assist with compliance of all IBank programs, including maintaining compliance with the State and federal rules and guidelines governing the SBLGP and SSBCI programs. Additionally, in May 2015, the directives and requirements for the implementation of programs administered under the Small Business Finance Center (Directives and Requirements) were adopted by the IBank Board pursuant to the Small Business Financial Assistance Act of 2013 (California Government Code 63088 et seq. and California Corporations Code sections 14000 et seq.). The Directives and Requirements replaced all existing regulations promulgated with respect to the SBLGP under the Small Business Finance Center pursuant to the law.

In December 2014, the U.S. Treasury Department released its Annual Report on the national SSBCI program that outlined the success of the small business lending effort. Of the more than \$1.1 billion the Treasury Department has disbursed to participating states, California has received more than \$110,000,000 and deployed \$89,000,000 for small business owners through IBank’s Small Business Loan Guarantee Program and the State Treasurer’s Office’s Capital Access Program and Collateral Support Program.

As of December 2014, California led the nation in states and territories that have deployed the most SSBCI funds by dollar amount as follows: California, Michigan, Florida, Illinois, Alabama, North Carolina, Texas, New York, Ohio, and Georgia. Business owners also reported that more than 95,000 jobs will be created or saved nationally as a direct result of SSBCI support. In California, approximately a third of those jobs have been created or retained between 2011 and 2014.

The result of California’s utilization of \$168 million, along with the private capital, is expected to yield more than \$2 billion in lending.



L.A. Kitchen is a culinary school/community kitchen that employs foster youth and previously incarcerated adults. They received an IBank loan guarantee from the Nonprofit Finance Fund. The Small Business Financial Development Corporation of Orange County helped facilitate this loan guarantee. Shown is the founder, Robert Eggers, with some of his students.

Conclusion

1. California small businesses continue to be challenged in the pursuit of growth capital.
2. The State's network of financial development corporations are challenged by the changes in the financial markets as they look to develop a broader network of lenders willing to underwrite the additional risks presented by these small businesses.
3. Losses in the state SBLGP program have continued over the last fiscal year; however, the net loss this fiscal year is down to \$292,698 from \$1.4 million in FY 2013-14.
4. Since its inception in February 2011 through June 30, 2015, there has been a total of only \$223,958 in losses under the SSBCI Program.

The California Infrastructure and Economic Development Bank will continue to promote economic growth for small businesses under SBLGP, including minority and women-owned businesses, by enabling these businesses to receive much needed financing when they are not able to access such capital without SBLGP. The SBLGP anticipates an increase in small business loan activity in California communities, allowing it to reserve \$10,000,000 additional to support over \$50,000,000 more in loans in fiscal year 2015/2016 than in the previous year.

Appendix

Table 1
FY 2014-15 Federally Funded SSBCI Production, by FDC

<u>FDC Name</u>	<u>Loan Amount</u>	<u>Initial Guarantee Liability</u>	<u>Total Financial Package</u>	<u>Jobs Created and Retained</u>
California Capital	\$3,687,719	\$2,641,375	\$4,004,294	218
California Coastal	\$8,062,500	\$5,926,900	\$9,301,114	484
California Southern	\$15,770,834	\$11,154,690	\$24,141,962	1,205
Hancock	\$1,880,000	\$1,195,000	\$1,880,000	46
Nor Cal	\$21,622,664	\$12,314,697	\$22,329,664	3,068
Orange County	\$37,341,500	\$28,783,550	\$70,682,719	2,305
Pacific Coast	\$15,497,652	\$12,001,122	\$27,198,347	1,831
SAFE-BIDCO	\$15,364,023	\$10,257,175	\$24,189,850	824
San Fernando Valley	\$1,270,000	\$1,010,000	\$1,270,000	481
	\$9,673,367	\$7,512,820	\$26,619,464	1,319
Totals	\$130,170,259	\$92,797,329	\$211,617,414	11,781

Table 2
FY 2014-2015 State-funded SBLGP Production, by FDC

<u>FDC Name</u>	<u>Loan Amount</u>	<u>Initial Guarantee Liability</u>	<u>Total Financial Package</u>	<u>Jobs Created and Retained</u>
California Capital	\$3,298,000	\$2,429,900	\$4,261,600	209
California Coastal	\$1,805,900	\$1,444,720	\$3,135,500	98
California Southern	\$3,655,850	\$2,492,680	\$6,017,121	191
Hancock	\$4,287,000	\$1,780,500	\$4,287,000	134
Nor Cal	\$2,146,748	\$1,673,860	\$2,146,748	143
Orange County	\$7,054,750	\$3,569,595	\$156,309,282	401
Pacific Coast	\$5,118,600	\$2,738,880	\$8,873,500	753
SAFE-BIDCO	\$1,194,864	\$879,191	\$2,175,683	156
San Fernando Valley	\$42,000	\$24,000	\$42,000	3
	\$8,773,400	\$4,034,400	\$10,145,252	725
Totals	\$37,377,112	\$21,067,726	\$197,393,686	2,813

Table 3
California's Top 10 FDC Lenders for the Quarter

Top 10 Lenders by Number of Loans		
For Quarter ending June 30, 2015		
Order	Lender	# of Loans
1	Accion San Diego	8
2	Valley Business Bank	7
3	Pacific Premier Bank	5
4	Torrey Pines Bank	5
5	Bank of Guam	4
6	California Credit Union	4
7	City National Bank	4
8	First Northern Bank of Dixon	4
9	Beneficial State Bank	3
10	River Valley Community Bank	3

Table 4
California's Top 30 Cumulative FDC Lenders

Top 30 Lenders by Number of Loans					
February 2011 through June 2015					
Order	Lender	# of Loans	Order	Lender	# of Loans
1	Accion San Diego	116	16	One Pacific Coast Bank	15
2	Torrey Pines	42	17	New Resource Bank	14
3	Citizens Business Bank	33	18	Silvergate Bank	13
4	Valley Business Bank	33	19	California Credit Union	12
5	CDC Small Business Finance	29	20	Bank of Santa Barbara	10
6	Sunwest Bank	29	21	Capital Bank	10
7	Bank of Guam	24	22	Independence Bank	10
8	BBCN Bank	22	23	Valley Economic Development Centers	10
9	Central Valley Community Bank	22	24	Community Bank of the Bay	9
10	Wilshire State Bank	19	25	Cooperative Center Federal Credit Union	9
11	City National Bank	18	26	Oak Valley Community Bank	9
12	Pacific Premier Bank	17	27	Rural Community Assistance Corporation	9
13	Security Bank of California	17	28	Community Bank of Santa Maria	8
14	Regents Bank	16	29	Grandpoint Bank	8
15	First Northern Bank	15	30	Presidio Bank	8

