



CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK

2013-2014 ANNUAL REPORT

TO THE

GOVERNOR AND LEGISLATURE

Prepared by the Program Manager for the

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

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SMALL BUSINESS LOAN GUARANTEE PROGRAM

Fiscal Year 2013-2014 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 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. The loan guarantee serves as a credit enhancement and an incentive for financial institutions to make loans to small businesses that otherwise would not be eligible for such financing.

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

The 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 \$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.

Eleven California small business financial development corporations (FDCs) were created pursuant to the California Corporations Code (starting with section 14000, and referred to as the

California Small Business Financial Development Corporation Law) and 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.

Fiscal Year 2013-2014 Results

Number of Guaranteed Loans in SSBCI program

With California's receipt of the first tranche of federal SSBCI funds in February 2011, the SBLGP gave priority to the new SSBCI program to ensure the utilization of the federal funds as quickly as possible. This effort continued with California's receipt of the second tranche of federal SSBCI funds in December 2013. The State is required to utilize at least 80% of the federal SSBCI funds before the State may request the third and final disbursement from the U.S. Treasury.

In FY 2013-14, a total of 176 SSBCI loans were made resulting in \$51.4 million of SSBCI funds being obligated to guarantee \$72.2 million in small business loans. This guarantee activity contributed to a total of \$105,372,743 of overall capital that was injected into the State's small business community. In addition, the borrowers reported over 7,235 jobs created or retained during this period as a result of these loan guarantees.

Since its inception in February 2011 through June 30, 2014, there have been 620 loan guarantees issued under SSBCI for approximately \$140.7 million in guarantees. The small business owners reported over 18,830 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, 2014, 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 2013-14, 169 guarantees were made under the state-funded program in the amount of \$23 million. The small business owners reported 2,823 jobs created or retained as a result of these loan guarantees.

Guarantee Portfolio as of June 30, 2014 were supported by the guarantee reserve funds comprised of the following accounts and balances:

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

- \$30,951,651 in the State-Funded Trust Fund account; and
- \$26,667,316 in the Federally-funded Trust Fund account.

The SSBCI account in Fund 0918 (Small Business Expansion Fund) account balance at the end of the fiscal year was:

- \$27,413,805 in the Federally-funded account.

Demographic Distribution: Ethnicity and Gender

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

Ethnic Background of Loan Guarantee Recipients (Both Federal and State Loan Guarantee Programs combined) FY 2013-14

Ethnicity	Number of Recipients	Percentage
Caucasian	217	62.90%
Asian/Pacific Islander	36	10.43%
Hispanic	31	8.99%
African American	13	3.77%
Asian Indian	18	5.22%
Native American	1	0.29%
Other	29	8.40%
TOTAL	345	100.0%

Gender of Loan Guarantee Recipients (Both Federal and State Loan Guarantee Program combined) FY 2013-14

Gender	Number of Recipients	Percentage
Men	223	64.64%
Women	59	17.10%
Co-owned Equally by Men and Women	63	18.26%
TOTAL	345	100.00%

SBLGP Loan Guarantee Loss Experience-State-Funded Program

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

Fiscal Year	Default Payments	Default Recoveries	Net Loss Rate 5 year Moving average *
2013-14	\$1,511,923	\$70,099	5.48%
2012-13	\$2,272,678	\$137,270	4.95%
2011-12	\$3,610,672	\$118,893	3.85%
2010-11	\$5,424,862	\$85,800	2.86%
2009-10	\$4,578,303	\$28,842	1.86%
2008-09	\$4,632,779	\$70,793	1.10%
2007-08	\$1,467,499	\$53,962	0.54%

* Based on the average guarantee encumbrance outstanding.

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

Fiscal Year	Default Payments	Default Recoveries	Program Loss Rate*	Net Loss Rate 5-year Moving average
2013-14	\$170,669	\$0	0.12	N/A
2012-13	\$12,906	\$0	.0002%	N/A
2011-12	\$0	\$0	0%	N/A

*2013-14 based upon cumulative losses as a percentage of cumulative guarantees of \$140,741,573.28 at the end of the fiscal year.

Significant Events

State Small Business Credit Initiative

The ending of FY 2013-14 marks 40.5 months working with the SSBCI federally-funded program. As part of the federal award, funds totaling \$168 million will be shared equally between the California Small Business Loan Guarantee Program and the California Pollution Control Financing Authority (CPCFA). CPCFA is a financing agency within the State Treasurer's Office which provides loan insurance for small businesses and nonprofits. A total of up to \$84 million may be drawn by SBLGP under three disbursements. The initial SSBCI allocation (1st tranche) from the U.S. Treasury totaled \$55 million and was received in FY 2010-11 (February 2011) and divided equally between the two agencies. The second SSBCI tranche of \$55,218,250 was received by the State Treasurer's Office in December 2013. The SBLGP received \$27,609,125 of the 2nd tranche. There is a federal mandate that for every dollar of federal funds spent, there will be \$10 match of private sector funds by the end of the SSBCI

program, in March 2017. The result of California's utilization of \$168 million, along with the private capital, is expected to yield more than \$2 billion in lending.

Fiscal year 2013-14 was the last year that the Business, Transportation and Housing Agency (BTH) administered the Small Business Loan Guarantee Program. As part of the Governor's Reorganization Plan, effective July 1, 2013, the program was transferred to the Governor's Office of Business and Economic Development. The enactment of AB 1247 placed the SBLGP under the Infrastructure and Economic Development Bank in October 2013.

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 the IBank's Small Business Loan Guarantee Program and the California Capital Access Program and Collateral Support Program. The remaining federal funds will be disbursed through 2017. California led the nation in states 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 a third of those jobs, or more than 31,000, have been created or retained since 2011.

Conclusion

1. California small businesses continue to be challenged in their 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 \$1.4 million.
4. As of June 30, 2014, there has been a total of only \$183,575 in losses under the SSBCI program.

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.

Appendix

Table 1
FY 2013-14 Federally-Funded SSBCI Production, by FDC

<u>FDC Name</u>	<u>Initial Guarantee Liability</u>	<u>Jobs Created and Retained</u>
California Capital	\$3,009,816	233
California Coastal	5,712,000	638
California Southern	\$3,535,521	402
Hancock	\$1,052,000	38
Inland Empire	\$920,000	52
Nor Cal	\$5,254,331	1,987
Orange County	\$16,023,857	652
Pacific Coast	\$5,484,360	584
SAFE-BIDCO	\$6,025,290	1,992
San Fernando	\$0	0
Valley	\$4,451,659	657
Totals	\$51,468,834	7,235.00

Table 2
FY 2013-14 State-funded SBLGP Production, by FDC

<u>FDC Name</u>	<u>Initial Guarantee Liability</u>	<u>Jobs Created and Retained</u>
California Capital	\$3,254,280	266
California Coastal	\$703,600	27
California Southern	\$3,183,220	344
Hancock	\$2,146,445	142
Inland Empire	\$556,500	27
Nor Cal	\$4,490,624	837
Orange County	\$3,313,901	269
Pacific Coast	\$1,709,281	139
SAFE-BIDCO	\$1,488,703	184
San Fernando	\$0	0
Valley	\$2,424,680	588
Totals	\$23,271,234	2,823

Table 3
FY 2013-14 Federally- Funded SSBCI Default and Recoveries, by FDC

<u>FDC Name</u>	<u>Default Payouts</u>	<u>Default Recoveries</u>	<u>Program Loss Rate*</u>
California Capital	\$0	\$0	0%
California Coastal	\$0	\$0	0%
California Southern	\$160,888.92	\$0	0.114%
Hancock	\$0	\$0	0%
Inland Empire	\$0	\$0	0%
Nor Cal	\$9,779.63	\$0	0.007%
Orange County	\$0	\$0	0%
Pacific Coast	\$0	\$0	0%
SAFE-BIDCO	\$0	\$0	0%
San Fernando	\$0	\$0	0%
Valley	\$0	\$0	0%
Totals	\$170,668.53	\$0	0.120%

*Based upon Cumulative losses as a percentage of Cumulative Guarantees of \$140,741,573.28.

Table 4
FY 2013-14 State-Funded SBLGP Default and Recoveries, by FDC

<u>FDC Name</u>	<u>Default Payouts</u>	<u>Default Recoveries</u>	<u>Net Loss rate 5-year Moving average *</u>
California Capital	\$0.00	\$11,333.13	7.42 %
California Coastal	\$149,948.73	\$26,875.78	6.17 %
California Southern	\$308,711.50	\$1,198.50	3.64 %
Hancock	\$90,846.80	\$0	6.38 %
Inland Empire	\$381,711.64	\$22,587.85	11.63 %
Nor Cal	\$284,604.77	\$0	3.49%
Orange County	\$4,373.50	\$0	5.12 %
Pacific Coast	\$0.00	\$8,103.76	14.11 %
SAFE-BIDCO	\$0.00	\$0	0.37 %
San Fernando	\$142,442.00	\$0	5.46 %
Valley	\$149,284.29	\$0	3.17 %
Totals	\$1,511,923.23	\$70,099.02	5.48%

* Based on the average guarantee encumbrance outstanding.