



California Infrastructure and
Economic Development Bank

Small Business Finance Center

Annual Report to the Governor and Legislature



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EXECUTIVE SUMMARY

The California Small Business Finance Center (SBFC) is a unit within the California Infrastructure and Economic Development Bank (IBank) and has the administrative responsibility for the California Small Business Loan Guarantee Program (SBLGP), Farm Loan Program, Jump Start Program, inactive programs such as the Disaster Loan Guarantee Program and the Surety Bond Guarantee Program, and other programs established in the SBFC from time to time (collectively, the Programs). This annual report is required by California Government Code Section 63089.98(a) and contains information regarding the expansion fund and trust fund financial product activity, including all of the following:

- 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.
- 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.
- Significant events.

In addition, this annual report will provide an overview of the Programs for FY 16/17.

The SBFC has enjoyed another effective year assisting small businesses in California. Funds have been successfully deployed to the small business community with support from the SBLGP in FY 16/17. The SBFC recruited 18 new lenders to participate in the SBLGP and lenders guaranteed 334 small business loans totaling almost \$165.1 million.

PROGRAM BACKGROUND

The 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 SBFC provides direct farm loan funds to Financial Development Corporation (Corporations) lenders 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 Loan Guarantee Program and Surety Bond Guarantee Program, neither of which had any activity this fiscal year due to lack of funding.

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, up to eleven Corporations 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 Corporation is a nonprofit corporation with general responsibilities for:

- 1) Marketing and administrating 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 Corporation, IBank offered contracts to the following eight Corporations for FY 16/17:

- California Capital Small Business Financial Development Corporation
- California Coastal Rural Development Corporation
- California Southern Small Business 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

FISCAL YEAR 16/17 RESULTS

Small Business Loan Guarantee Program (SBLGP)

Number of Guaranteed Loans in SSBCI program

In FY 16/17, a total of 252 SSBCI loans were made resulting in \$74.1 million of loan guarantees supporting \$97.4 million in small business loans. This guarantee activity contributed to nearly \$207 million of overall capital that was injected into the State's small business community. In addition, the borrowers reported 6,847 jobs were created or retained during this period as a result of the loan guarantees.

Since its inception in February 2011 through June 30, 2017, there have been 1,439 loan guarantees issued in California under SSBCI for approximately \$414 million in guarantees. The small business owners reported 48,316 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, 2017, 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 16/17, a total of 82 loans were made resulting in \$46.9 million of loan guarantees supporting \$67.6 million in small business loans. This guarantee activity contributed to over \$95 million of overall capital that was injected into the State's small business community. The small business owners reported 2,302 jobs created or retained as a result of these loan guarantees.

Ethnicity of Loan Guarantee Recipients

The figures represent both the Federal and State Loan Guarantee Programs for FY 16/17

Ethnicity	Number of Recipients	Percentage
Caucasian	194	58%
Asian/Pacific Islander	21	6.3%
Hispanic	39	11.7%
African American	14	4.2%
Asian Indian	29	8.7%
Native American	0	0.0%
Other	37	11.1%
TOTAL	334	100%

Gender of Loan Guarantee Recipients

The figures represent both the Federal and State Loan Guarantee Programs for FY 16/17

Gender	Number of Recipients	Percentage
Men	224	67%
Women	55	16.5%
Co-owned Equally by Men and Women	55	16.5%
TOTAL	334	100%

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

For FY 16/17, the federally funded SBLGP paid seven claims amounting to \$1,270,326 during the entire fiscal year. The losses were 1.59% of the reserve account and only .42% of the nearly \$304 million loan outstanding principal.

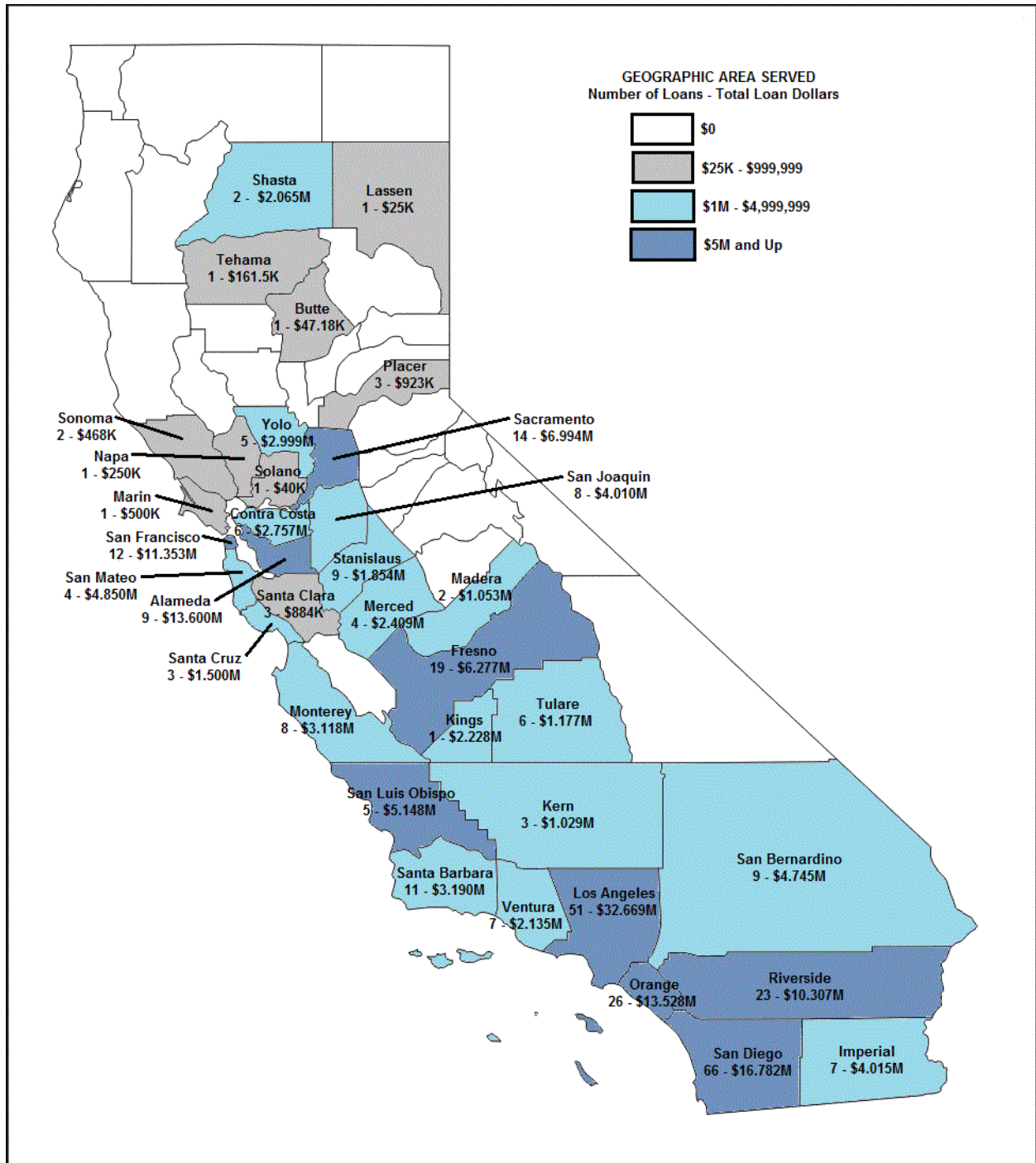
Number of Guarantee Payments	Default Payments	Default Recoveries	30-Jun-17 Guarantee Reserve	Net Loss Rate on Reserve	30-Jun-17 Outstanding Loan Principal	Net Loss Rate on Loan Principal
7	\$1,270,326	\$0	\$79,831,396	1.59%	\$303,823,129	0.42%

SBLGP Loan Guarantee Loss Experience: State-Funded Program

For FY 16/17, the State funded SBLGP paid out \$484,070 in claims while recovering \$141,473. The losses were 1.88% of the reserve account and only .23% of the over \$149 million outstanding loan principal.

Number of Guarantee Payments	Default Payments Amount	Default Recoveries	30-Jun-17 Guarantee Reserve	Net Loss Rate on Reserve	30-Jun-17 Outstanding Loan Principal	Net Loss Rate on Loan Principal
9	\$484,070	\$141,473	\$18,216,877	1.88%	\$149,483,402	0.23%

Map of Geographic Distribution of Loan Guarantee Activity for FY 16/17



SBLGP Production by FDC

FY 16/17 Federally Funded SSBCI

FDC Name	Loan Amount	Initial Guarantee Liability	Total Financial Package	Jobs Created and Retained
California Capital	\$11,938,300	\$9,550,640	\$13,073,300	789
California Coastal	\$10,980,000	\$8,584,000	\$38,292,043	645
California Southern	\$3,682,600	\$2,735,175	\$10,762,479	305
Nor Cal	\$14,236,796	\$11,389,437	\$18,195,346	1,073
Orange County	\$34,127,349	\$24,919,933	\$69,750,872	2,100
Pacific Coast	\$7,760,069	\$5,903,055	\$10,940,869	523
SAFE-BIDCO	\$5,315,000	\$3,627,150	\$12,716,368	441
Valley	\$9,407,719	\$7,391,175	\$32,879,084	971
Totals	\$97,447,833	\$74,100,564	\$206,610,361	6,847

FY 16/17 State-funded SBLGP

FDC Name	Loan Amount	Initial Guarantee Liability	Total Financial Package	Jobs Created and Retained
California Capital	\$4,009,000	\$2,356,200	\$4,009,000	97
California Coastal	\$2,957,500	\$2,366,000	\$4,428,802	73
California Southern	\$12,071,055	\$9,300,194	\$17,754,619	437
Nor Cal	\$13,134,750	\$7,163,784	\$14,134,750	204
Orange County	\$17,125,974	\$12,489,929	\$27,162,053	337
Pacific Coast	\$3,057,000	\$2,205,600	\$3,057,000	443
SAFE-BIDCO	\$10,145,400	\$6,939,570	\$18,280,400	521
Valley	\$5,141,886	\$4,103,709	\$5,899,300	190
Totals	\$67,642,565	\$46,924,987	\$94,725,924	2,302

Top Financial Institution Users of SBLGP

FY 16/17 California's Top 10 Lenders by Number of Loans

Order	Lender	# of Loans
1	Accion San Diego	49
2	CDC Small Business Finance	27
3	Valley Small Business Development Corporation	14
4	City National Bank	12
5	California Credit Union	11
6	Community West Bank	11
7	Capital Bank	10
8	Valley Business Bank	10
9	Torrey Pines Bank	9
10.1	California Bank of Commerce	8
10.2	Oak Valley Community Bank	8

FY 16/17 California's Top 10 Lenders by Dollars Loaned

Order	Lender	Dollars Loaned
1	California Bank & Trust	\$14,249,244
2	Capital Bank	\$10,829,000
3	California Bank of Commerce	\$9,280,400
4	City National Bank	\$7,148,000
5	Bank of Southern California	\$6,773,000
6	Pacific Mercantile Bank	\$6,031,000
7	California Business Bank	\$5,419,586
8	California Credit Union	\$5,128,000
9	River City Bank	\$4,965,000
10	HomeStreet Bank	\$4,743,407

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) which guarantees up to 90% of those loans.

Three Corporations have requested and are approved to use the Farm Loan Program. The Farm Loan Program was utilized by two of the three Corporations in FY 16/17.

FDC Name	Number of New Direct Loans	Amount of New Direct Loans	Number of Jobs Created or Retained
Valley	3	\$840,000	41

FDC Name	Number of Historic Loans Purchased	Amount of Historic Loans Purchased	Number of Jobs Created or Retained
CalCoastal	10	\$353,958	217

Total Outstanding Disbursements*	Total Outstanding Balance in the Trust Fund	Number of Defaults
\$1,959,820	\$3,074,069	0

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

Gender of Farm Loan Recipients

Gender	Number of Recipients	Percentage
Men	6	46.15%
Women	1	7.7%
Co-owned Equally by Men and Women	6	46.15%
TOTAL	13	100%

Ethnicity of Farm Loan Recipients

Ethnicity	Number of Recipients	Percentage
Caucasian	9	69.2%
Asian/Pacific Islander	0	0.0%
Hispanic	4	30.8%
African American	0	0.0%
Asian Indian	0	0.0%
Native American	0	0.0%
Other	0	0.0%
TOTAL	13	100%

Jump Start Loan Program: 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 the technical business training. To help remedy the financial disparity suffered by these small businesses, IBank created the Jump Start Loan Program and contracted with five Financial Development Corporations (Jump Start Corporations) 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 under the Jump Start Loan Program. All of the services provided by the Jump Start Corporations 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 Corporations began providing technical assistance to potential Jump Start borrowers. It is anticipated direct Jump Start loans will begin to be made in Fiscal Year 17/18.

SIGNIFICANT EVENTS OF FISCAL YEAR 16/17

SB936 (Hertzberg, Chapter 713, Statutes of 2016): The Small Business Financial Assistance Act of 2013 required guarantees made by small business Corporations to be backed by funds on deposit in the trust fund account and requires these loan guarantees to be secured by a reserve of at least 20%, until January 1, 2018, and 25% thereafter. This bill, approved by Governor Brown and filed with the Secretary of State on September 27, 2016 reduces the required reserve to 10% indefinitely. The change in leverage will allow IBank to guarantee more small business loans.

SSBCI Fourth Tranche of Funds: The U. S. Treasury announced it must re-allocate some de-allocated funds. Some states were not able to reach funding goals in order to obtain the third tranche of funds and had to forfeit their allocation of the third tranche of funds. Some states were required to repay funds to the SSBCI fund after unfavorable Office of the Inspector General audit findings. The de-allocated amount is approximately \$6 million and was proportioned for re-allocation to most of the remaining states. In Fiscal Year 16/17 IBank's SBLGP received a fourth and final SSBCI allocation of \$321,716.50.