



**MINUTES OF THE
CALIFORNIA INFRASTRUCTURE AND
ECONOMIC DEVELOPMENT BANK**

For the meeting held on
Wednesday, January 7, 2015, 2:00 p.m.
Dept. of Food and Agriculture Auditorium
1220 N Street
Sacramento, California 95814

Chairman Mike Rossi called the meeting of the California Infrastructure and Economic Development Bank (IBank) Board to order at approximately 2:03 p.m.

1. Call To Order and Roll Call.

The following Board members were in attendance:

Mike Rossi, Chairman
Eraina Ortega, for the Director of the Department of Finance
Alan Gordon, for the State Treasurer
Peter Luchetti, Governor's Appointee

Mr. Annis, representing the Secretary of the State Transportation Agency was not present at the time of roll call but arrived at approximately 2:07 p.m.

The IBank staff member in attendance:

Teveia Barnes, Ruben Rojas, Marilyn Munoz, Diane Cummings, Nancee Trombley

Consent items were addressed prior to hearing the Executive Director's Report. The minutes remain in the order below to correspond to the posted agenda.

Information Item

2. Executive Director's Report.

Executive Director Ms. Teveia Barnes updated the Board on two resolutions previously approved by the Board.

1) Under Resolution 13-16, the Board approved a master loan agreement, which allowed IBank to provide short-term loans to State Agencies. In 2013, a \$35 million loan was provided to the California Department of Public Health. A second loan was provided to the State Water Resources Control Board for \$17, 900,000 and repaid in December 2014.

Ms. Barnes reported that IBank's short-term loan program is working and is helping State agencies satisfy matching fund obligations required under Federal programs.

2) Under Resolution 14-09, the Board approved the transfer of up to \$15 million to the California Pollution Control Finance Authority (CPCFA). Ms. Barnes reported that \$10 million has been transferred to CPCFA in order to keep their program moving at an accelerated pace and help facilitate the receipt of a third tranche of Federal funds.

Consent Item:

- 3. Approve minutes from the meeting held on November 18, 2014.**
- 4. Approve minutes from the meeting held on December 16, 2014.**

Chairman Rossi called for any questions or comments from the Board or the public. Hearing none, he entertained a motion to approve. Ms. Ortega moved to approve both sets of minutes and Mr. Luchetti seconded the motion. The Secretary of the Board took the roll call vote and the Board unanimously approved the November 18, 2014 and the December 16, 2014 minutes.

Action Items:

- 5. Resolution 14-19 making a determination as to the Executive Director's nonrenewal of the Small Business Loan Guarantee Program's (Program) agreement (#13GOB038) with the San Fernando Valley Small Business Financial Development Corporation (SFV) and the termination of SFV's authority to issue loan guarantees or otherwise act as a Financial Development Corporation for purposes of the Program.**

The Secretary of the Board, Ruben Rojas, introduced two representatives from SFV:

- 1) Roberto Barragan, President
- 2) Rick Navarrette, Counsel for SFV

Chairman Rossi called for questions or comments from the representatives.

Mr. Navarrette stated that SFV sent a letter which responded to the issues addressed in the staff report. He further stated that a proposal was sent to Ms. Barnes on December 30, 2014.

Mr. Barragan stated that Ms. Barnes has implemented necessary structure to the Small Business Loan Guarantee Program (SBLGP), praised her efforts and acknowledged that the program is showing signs of success. He continued by stating that Ms. Barnes has elected not to renew SFV's contract without cause or due process. Mr. Barragan asked the IBank Board to rescind the decision and to restore the ability of SFV to be a full participant in the SBLGP.

Mr. Barragan informed the Board that it is his intent to relinquish his position at SFV due to SFV Board's desire to have a full-time president overseeing the SBLGP as well as the SBA 504 program.

Ms. Barnes thanked Mr. Barragan for his complimentary statements regarding the recent success of the SBLGP and stated that, based on the findings provided in the staff report, she stands behind her decision to terminate SFV's contract.

Mr. Barragan proposed to the IBank Board that SFV be allowed to continue as a financial development corporation in order to guarantee loans including those issued by Valley Economic Development Corporation (VEDC). Ms. Barnes explained to the Board that Mr. Barragan is a Board member of VEDC a Community Development Financial Institution which acts as an approved lender under the SBLGP. IBank's approval of VEDC as a lender

under the SBLGP was conditioned by the VEDC Board having a policy assuring that any loan issued by VEDC would not be guaranteed by SFV. Any loans issued by issued by VEDC would have to be guaranteed by another FDC, for example the Orange County FDC.

Mr. Barragan offered an explanation as to why this structure was theoretically not necessary.

Chairman Rossi agreed with Ms. Barnes' structure outlined above and stated that such was in place to prevent any conflict of interest.

Ms. Barnes stated that SFV has a fundamental lack of understanding of the credit issues and risks associated with the SBLGP and thus there are concerns regarding the administration of SFV and their guarantee program.

Mr. Barragan stated that in regards to risk, SFV's charge off rate or loss history is the lowest in the program.

Mr. Rossi stated that having a good collection department does not equate to appropriate risk management and that credit risk is an analytical exercise. The findings of such an analytical exercise should stand on their own. Mr. Rossi also stated that there is no justification for guaranteeing a lender in the first position when the same entity is also lending in the second position.

Mr. Rossi called for any additional questions or comments from the Board.

Mr. Gordon asked for clarification on the relationship between SFV and VEDC and how this relationship impacts the Board's decision.

Mr. Barragan explained that VEDC and SFV are nonprofit organizations completely independent of each other, each having their own Board of Directors, and that he serves in both organizations and thus he is the common entity. Mr. Barragan also explained that there exists a third entity, which is a federally chartered credit union. All three entities are focused on providing small businesses with access to capital. The combination of the entities provides a variety of tools available to small business.

Mr. Gordon asked how terminating SFV's contract would affect VEDC.

Mr. Barragan stated that it would not affect VEDC but would affect the State program. VEDC would continue lending across the State but terminating SFV's contract would limit the State program.

Mr. Gordon asked if SFV could reapply in the future. Ms. Barnes stated that they would be allowed to reapply.

Ms. Marilyn Munoz stated that there was no limit to the number of FDC's and confirmed that SFV could reapply.

Mr. Annis referenced item number two and six in the staff report and asked Mr. Barragan to explain what corrective actions have or will be taken to address the issues.

Mr. Barragan stated that in the fall of 2013, SFV was over-committing on the federal guarantee loans and was requested to utilize State guarantees in order to help secure the next federal tranche of funds. After the award of the Federal funds, SFV was directed to return to utilizing Federal guarantees but SFV staff did not respond to this directive nor was it able to produce requested documents and data. Further, at that time, SFV was not in a position to hire a new manager. Mr. Barragan shared that moving forward, SFV has identified two full time employees which will provide the requested data and ensure compliance.

Mr. Navarrette stated that SFV was not contractually obligated to prioritize the federal loans and thus termination of the contract should not be based on this issue.

Mr. Luchetti asked if the needs of the community would be served if SFV's contract is terminated.

Ms. Barnes stated that community needs would be met by other financial development corporations that would be able to issue guarantees which are compliant under the state and federal loan guarantee programs. SFV failed to issue any eligible loan agreements under the SSBCI program during the fiscal year ending June 30, 2014, and currently most of guarantees issued by SFV in prior years under SSBCI have been identified as noncompliant. Of the 21 guarantees issued by SFV over the last three years, only three have been deemed to be compliant. The balances of the loans have significant issues with regards to the enforceability of the guarantees. Should a claim be brought forth by a bank on any noncompliant loan, the State may be unable to pay on those guarantees.

Mr. Luchetti asked if the IBank Board votes to terminate SFV's contract, will the needs of the community be served within the policies, procedures and best practices of the IBank's SBLGP.

Ms. Barnes responded affirmatively that the needs of this community will be served by the remaining FDC's. Mr. Luchetti also asked if the intentions of the public policy will be fulfilled in this community. Ms. Barnes again affirmed such.

Mr. Luchetti commented that SFV should have been better managed from a procedural, structural, and best practice prospective.

Mr. Barragan commented that SFV did not have an exit interview with the auditors upon their examination of the loans previously referenced. However, SFV responded to all auditing findings as quickly as possible. Mr. Barragan stated that with the exception of two loans which were removed from the program, the requested information has been provided and the loans have been shown to be compliant and such information could be provided again. Mr. Barragan further stated that a program which cannot comply with Federal regulations should not be in place and that if it is found that the supermajority of the 21 loans are noncompliant, the Board should support the decision to terminate SFV's contact.

Mr. Luchetti stated that he found SFV's legal correspondence inaccurate on some issues. He further stated that the alternative action which should have been implemented by SFV upon first notification of this matter was to immediately hire a well-qualified compliance officer and administrator and to have initiated an appeal. The contract states that SFV had 15 days to respond to the administrative inquiries and that SFV elected to submit two legal correspondences addressing the administrative process instead of offering substantive solutions to the issues brought to the attention of SFV.

As a follow up to Mr. Luchetti's question, Mr. Gordon asked if the San Fernando Valley community would be served despite the termination of SFV's contract. Ms. Barnes stated that Orange County FDC and Pacific Coast Regional would serve the San Fernando Valley community.

Chairman Rossi called for any additional questions or comments from the Board or the public. Hearing none, he entertained a motion to approve Resolution 14-19.

Ms. Ortega commented that from a process prospective, the Board is to learn whether the person or entity called before the Board has information which causes the Board to take exception to the Executive Director's recommendation or action. In her opinion the Board has not been provided any information of the like and therefore made a motion to adopt the staff recommendation to terminate SFV's contract. Mr. Luchetti and Mr. Annis seconded the motion. The Secretary of the Board took the roll call vote and the Board unanimously approved Resolution 14-19 affirming the Executive Director's decisions to (1) not renew SFV's annual contract; and (2) terminate SFV's status as an FDC for purposes of the SBLGP.

Other Non-Action Business.

Chairman Rossi called for any other business; there was none.

Public Comment.

Chairman Rossi called for any public comment; there was none.

Adjournment.

Chairman Rossi declared the meeting adjourned at approximately 2:43 p.m. The Secretary of the Board took the roll call vote and the Board unanimously adjourned the meeting.