



California Infrastructure and  
Economic Development Bank



**CALIFORNIA SMALL BUSINESS  
FINANCE CENTER**



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**Annual Report  
to the  
Governor  
and Legislature**

**2015 - 2016**

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## **SMALL BUSINESS FINANCE CENTER PROGRAMS**

### **Fiscal Year 2015-2016 Annual Report**

#### **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, inactive programs such as the Disaster Loan Guarantees and the Surety Bond Guarantees, 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 record-breaking year assisting small businesses in California. Funds have been effectively deployed to the small business community with support from the SBLGP in FY 15/16. The SBFC recruited 22 new lenders to participate in the SBLGP and lenders guaranteed 369 small business loans totaling almost \$187.5 million, an increase of about \$13.5 million in the amount of money loaned compared with FY 14/15.

#### **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 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 nine Corporations for FY 15/16:

- 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



*Congratulations to Pacific Coast Regional (PCR) Small Business Development Corporation on celebrating 40 amazing years of invaluable assistance to small businesses! In commemoration of the event, IBank Chief Deputy Executive Director Nancee Trombley, proudly presented PCR President/CEO Mark Robertson, Sr. with a resolution noting all of PCR's many achievements over the past four decades.*

## Fiscal Year 15/16 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 and received the third and final tranche of funding from U.S. Treasury in August 2015.

*B Street Theatre has been delighting audiences and providing an opportunity for children to experience the arts in the region for 25 years. The SBLGP-guaranteed loan enabled the theatre to hire 12 employees and retain 31 jobs. “The IBank loan guarantee helped B Street Theatre with our expansion project,” said Bill Blake, managing director of B Street Theatre. “It completes an entertainment, theater and arts district that will continue to make Sacramento a cultural destination.”*



## Number of Guaranteed Loans in SSBCI program

In FY 15/16, a total of 291 SSBCI loans were made resulting in \$100.5 million of loan guarantees supporting \$143.2 million in small business loans. This guarantee activity contributed to nearly \$244 million of overall capital that was injected into the State’s small business community. In addition, the borrowers reported 11,236 jobs were created or retained during this period as a result of the loan guarantees.

Since its inception in February 2011 through June 30, 2016, there have been 1,170 loan guarantees issued in California under SSBCI for approximately \$336.5 million in guarantees. The small business owners reported over 40,691 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, 2016, 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 15/16, a total of 78 loans were made resulting in \$27.4 million of loan guarantees supporting \$44.4 million in small business loans. This guarantee activity contributed to over \$69 million of overall capital that was injected into the State’s small business community. The small business owners reported 2,132 jobs created or retained as a result of these loan guarantees.

## Ethnicity and Gender Data

### Ethnicity of Loan Guarantee Recipients

The following table show the percentage of loan guarantees issued by ethnicity.  
The figures represent both the Federal and State Loan Guarantee Programs for FY 15/16

<b>Ethnicity</b>	<b>Number of Recipients</b>	<b>Percentage</b>
Caucasian	243	65.8%
Asian/Pacific Islander	19	5.1%
Hispanic	32	8.6%
African American	14	3.8%
Asian Indian	14	3.8%
Native American	0	0%
Other	51	13.8%
<b>TOTAL</b>	<b>369</b>	<b>100%</b>

### Gender of Loan Guarantee Recipients

The following table show the percentage of loan guarantees issued by gender.  
The figures represent both the Federal and State Loan Guarantee Programs for FY 15/16

<b>Gender</b>	<b>Number of Recipients</b>	<b>Percentage</b>
Men	257	69.61%
Women	67	18.2%
Co-owned Equally by Men and Women	45	12.2%
<b>TOTAL</b>	<b>369</b>	<b>100%</b>

### **SBLGP Loan Guarantee Loss Experience: State-Funded Program**

For FY 15/16, the State funded SBLGP had significantly fewer losses than previous years. IBank paid out \$341,500 in claims while recovering \$307,364. The losses were a mere .28% of the reserve account and only .03% of the over \$109 million outstanding loan principal.

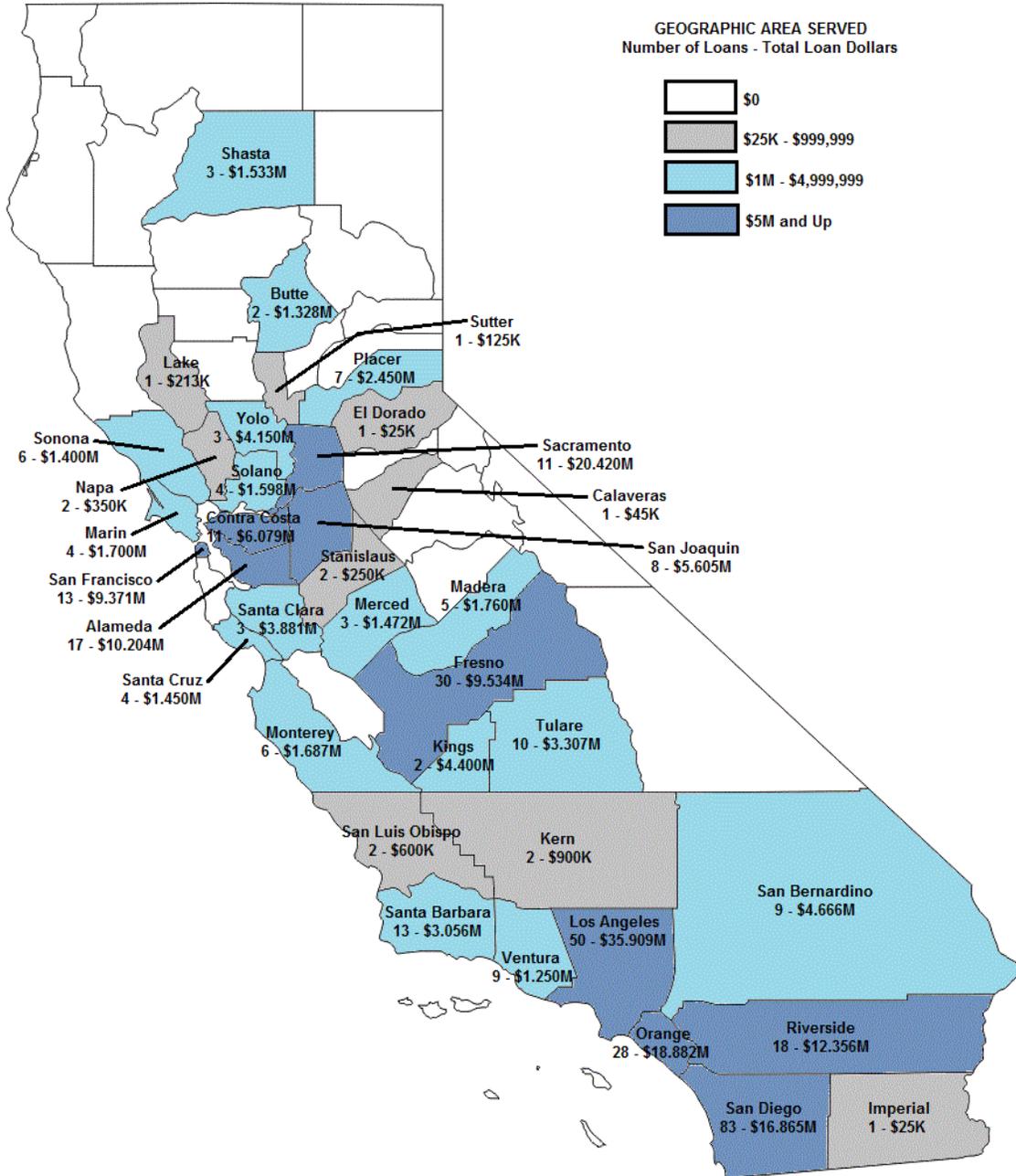
<b>Number of Guarantee Payments</b>	<b>Default Payments Amount</b>	<b>Default Recoveries</b>	<b>30-Jun-16 Guarantee Reserve</b>	<b>Net Loss Rate on Reserve</b>	<b>30-Jun-16 Outstanding Loan Principal</b>	<b>Net Loss Rate on Loan Principal</b>
<b>6</b>	<b>\$341,500</b>	<b>\$307,364</b>	<b>\$12,199,810</b>	<b>0.28%</b>	<b>\$109,185,133</b>	<b>0.03%</b>

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

For FY 15/16, the federally funded SBLGP had miniscule losses compared to the amount of lending. IBank paid five claims amounting to \$243,000 during the entire fiscal year. The losses were .63% of the reserve account and only .09% of the over \$278 million loan outstanding principal.

<b>Number of Guarantee Payments</b>	<b>Default Payments</b>	<b>Default Recoveries</b>	<b>30-Jun-16 Guarantee Reserve</b>	<b>Net Loss Rate on Reserve</b>	<b>30-Jun-16 Outstanding Loan Principal</b>	<b>Net Loss Rate on Loan Principal</b>
<b>5</b>	<b>\$243,000</b>	<b>\$0</b>	<b>\$38,542,687</b>	<b>0.63%</b>	<b>\$278,447,572</b>	<b>0.09%</b>

**MAP of Cities and Counties**  
**Geographic Distribution of Loan Guarantee Activity for FY 15/16**



## 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.

In July 2015, the IBank Board approved a request to increase the existing Farm Loan Program fund by \$6 million. The funds were reallocated from the State Small Business Guarantee Fund since the SBLGP primarily uses federal funds. Three Corporations have requested and are approved to utilize the Farm Loan Program. Farm loans were made by one of the three Corporations in FY 15/16.

<b>FDC Name</b>	<b>Number of New Direct Loans</b>	<b>Amount of New Direct Loans</b>	<b>Total Outstanding Disbursements*</b>	<b>Total Outstanding Balance in the Trust Fund</b>	<b>Number of Jobs Created or Retained</b>	<b>Number of Defaults</b>
<b>Valley</b>	<b>6</b>	<b>\$1,305,000</b>	<b>\$1,367,556</b>	<b>\$5,494,758</b>	<b>84</b>	<b>0</b>

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

### Farm Loan Gender Data

<b>Gender</b>	<b>Number of Recipients</b>	<b>Percentage</b>
Men	4	66.7%
Women	2	33.3%
Co-owned Equally by Men and Women	0	0%
<b>TOTAL</b>	<b>6</b>	<b>100%</b>

### Farm Loan Ethnicity Data

<b>Ethnicity</b>	<b>Number of Recipients</b>	<b>Percentage</b>
Caucasian	6	100%
Asian/Pacific Islander	0	0%
Hispanic	0	0%
African American	0	0%
Asian Indian	0	0%
Native American	0	0%
Other	0	0%
<b>TOTAL</b>	<b>6</b>	<b>100%</b>

## Significant Events of Fiscal Year 15/16

### *1,000th SSBCI Small Business Loan Guarantee to Emeryville based Sustainable Products Company Moderntwist:*

On February 3rd, 2016, IBank announced its 1,000th SSBCI small business loan guarantee at a news conference in the Governor's Council Room at the State Capitol. "IBank's loan guarantee is a game changer for me. I can actually grow my business and go into mass distribution with my products now," said Kat Nouri, owner of Moderntwist. "Other traditional loans didn't work for my business and this one really makes a difference." Moderntwist is also able to hire six more employees with the help of the loan guarantee.



*SBFC Receives Certificate of Recognition from Assembly Member Eduardo Garcia for SSBCI 1,000<sup>th</sup> Loan:* IBank was recognized by Assembly Member Eduardo Garcia for the important work of the SBFC in support of "California's dynamic small businesses, who serve as the primary drivers of the state's job generation."

*SBLGP Application Portal:* In an effort to increase program efficiencies and capitalize on high tech convenience, the SBFC launched its online application portal in April 2016. Automated processing of guarantee applications improves upon an antiquated system of paper processing. The online applications are making it easier for Corporations to serve lenders and small businesses.

*SSBCI Third Tranche of Funds:* IBank reached its goal of obligating or expending 80% of the first and second tranche of SSBCI funds to qualify for the third tranche to be disbursed by U.S. Treasury. The amount of a little over \$28 million was received in October 2015 and is being utilized to support eligible guarantees.

## Outlook for 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 will reduce the required reserve to 10% indefinitely. The change in leverage will allow IBank to guarantee more small business loans.

*New Pilot Program:* IBank's Board will vote to establish the Jump Start Loan Program, a new micro-loan and technical assistance program targeting small businesses in low-wealth communities. In partnership with our Corporations, IBank aims 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.

*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 will be proportioned for re-allocation to most of the remaining states. IBank's SBLGP is expected to receive a fourth SSBCI allocation of approximately \$322,000.

## Appendix

**Table 1**  
**FY 15/16 Federally Funded SSBCI Production, by FDC**

<b>FDC Name</b>	<b>Loan Amount</b>	<b>Initial Guarantee Liability</b>	<b>Total Financial Package</b>	<b>Jobs Created and Retained</b>
California Capital	\$19,772,544	\$15,468,035	\$24,230,741	1,268
California Coastal	\$6,736,368	\$5,389,094	\$9,172,993	411
California Southern	\$14,262,453	\$10,577,262	\$26,889,617	1,174
Hancock	\$2,350,000	\$1,380,000	\$2,350,000	47
Nor Cal	\$18,154,899	\$12,317,935	\$18,195,529	1,493
Orange County	\$34,806,750	\$24,570,649	\$82,184,248	3,117
Pacific Coast	\$21,010,200	\$10,927,458	\$31,243,817	753
SAFE-BIDCO	\$12,716,955	\$9,273,564	\$20,975,305	1,515
Valley	\$13,378,938	\$10,620,650	\$28,704,807	1,458
<b>Totals</b>	<b>\$143,189,117</b>	<b>\$100,524,647</b>	<b>\$243,943,337</b>	<b>11,236</b>

**Table 2**  
**FY 15/16 State-funded SBLGP Production, by FDC**

<b>FDC Name</b>	<b>Loan Amount</b>	<b>Initial Guarantee Liability</b>	<b>Total Financial Package</b>	<b>Jobs Created and Retained</b>
California Capital	\$2,505,000	\$2,004,000	\$2,809,625	122
California Coastal	\$657,000	\$525,600	\$807,000	29
California Southern	\$6,841,892	\$5,368,510	\$13,979,292	401
Hancock	\$393,000	\$108,600	\$393,000	16
Nor Cal	\$3,200,525	\$2,410,420	\$3,200,525	547
Orange County	\$19,730,480	\$8,664,384	\$34,396,920	282
Pacific Coast	\$1,044,000	\$722,000	\$1,424,000	47
SAFE-BIDCO	\$585,000	\$468,000	\$1,300,000	108
Valley	\$9,394,827	\$7,177,000	\$10,870,827	654
<b>Totals</b>	<b>\$44,351,724</b>	<b>\$27,448,518</b>	<b>\$69,181,189</b>	<b>2,132</b>

**Table 3**  
**FY 15/16 California's Top 10 Lenders by Number of Loans**

<b>Order</b>	<b>Lender</b>	<b># of Loans</b>
1	Accion San Diego	36
2	Torrey Pines Banks	31
3	CDC Small Business Finance	24
4	Valley Business Bank	16
5	Capital Bank	11
6	Pacific Premier Bank	11
7	California Bank of Commerce	9
8	California Credit Union	9
9	Community Bank of the Bay	9
10	First Northern Bank of Dixon	9

**Table 4**  
**FY 15/16 California's Top 10 Lenders by Dollars Loaned**

<b>Order</b>	<b>Lender</b>	<b>Dollars Loaned</b>
1	California Credit Union	\$12,001,000
2	Five Star Bank	\$12,000,000
3	Torrey Pines Banks	\$11,578,792
4	Silvergate Bank	\$8,741,817
5	California Bank of Commerce	\$8,395,375
6	Capital Bank	\$7,760,000
7	Pacific Premier Bank	\$7,741,000
8	Valley Business Bank	\$7,546,200
9	Community Business Bank	\$7,234,000
10	Bank of Guam	\$3,066,116