

# **CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK**

## **CALIFORNIA REBUILDING FUND – AMENDED AND RESTATED RESOLUTION NO. 20-15 INCREASING IBANK INVESTMENT LIMITS**

### **STAFF REPORT**

The California Infrastructure and Economic Development Bank (“IBank”) staff recommends the IBank Board of Directors (the “Board”) approve Amended and Restated Resolution No. 20-15, increasing the financing amount originally approved in Board Resolution No. 20-15 on August 26, 2020 from \$25 Million to \$37.5 Million.

Resolution No. 20-15 delegated authority to IBank’s Executive Director to, among other things, to negotiate and execute one or more agreements to loan up to \$25 Million to an entity created to fund California small business loans. IBank and others would loan money to the entity (hereinafter, the “Fund”), which would then aggregate this money and make loans to California Community Development Financial Institutions (“CDFIs”). The CDFI’s would draw from the Fund to make numerous small business loans to California small businesses in need of low-cost loan capital. A copy of IBank’s Staff Report for Resolution No. 20-15 is included with this Staff Report as Attachment 1.

IBank’s loan to the Fund is intended to combine with loans from other entities to provide liquidity and balance sheet capacity to CDFI’s to make additional small business loans during these challenging economic times.

The Fund would issue three series of debt, a Series A to commercial lenders, a Series B to commercial lenders and philanthropic organizations, and a Series C to IBank and other philanthropic and government entities. The Series A lenders would be the senior priority lenders and would receive an interest rate of up to 2.5%. The Series B lenders would be in second priority position and potentially receive interest. IBank’s loan would be in third position and would not charge any interest.

The Fund would aggregate the Series A, B, and C loans and use them to make loans to CDFIs. The CDFI’s would use this money to make small business loans and assign the loans to a holding entity. The holding entity would be wholly-owned by the Fund and created solely to hold the loans for the benefit of the Fund.

IBank’s Series C loan to the Fund was initially to be for \$25 Million. The Fund would start making loans to CDFIs when it raised a total of \$125 Million in Series A-C Loans. The Fund management believes a 30% subordination is required to attract Series A investments. Therefore, a \$25 Million of Series C loan from IBank would be sufficient to raise only \$83 Million in aggregate. To raise the minimum of \$125 Million, Series B and C Loans would need to be at least \$37.5 Million.

The Governor's office recently announced that another \$12.5 Million would be made available to IBank's Small Business Finance Center. IBank management would like to apply this allocation to the Series B or Series C Loan. As discussed in Attachment 1, it is likely little or none of IBank's Series C Loan will be repaid. It will likely be consumed by small business loan losses. Nonetheless, IBank management believes its Series C loan remains a good investment for California. \$37.5 Million from IBank in subordinate capital would enable the Fund to meet the minimum \$125 Million capital requirement to begin issuing loans to California's struggling small businesses.

IBank staff recommends the Board approve Amended and Restated Resolution No. 20-15.

**ATTACHMENT 1**

**Staff Report for Resolution No. 20-15 Adopted August 26, 2020**