



**Empire State  
Development**

# **CAP Sustainability**

*May 17, 2017*

**Plans for New York State**

# NYS CAP Overview

## History

- NYS historically had a CAP that was last active in the 1990's
- NYS originally allocated \$18.9 MM to CAP at the inception of SSBCI
- Shifted \$10 MM to its VC program, INNY, in 2013
- To date, NYS has obligated \$3.2 MM

## Per NYS Statute

- Limit of \$500,000 per loan
- Does not require a 50/50 split between borrower and lender on LLR deposit – most borrowers deposit as little as \$10
- Current lender agreements allow participating lenders to keep all LLR funds once program ends and outstanding total loan principal is zero

# NYS CAP Impact

Since April of 2012:

- 19 active participating lenders
- Nearly 1900 businesses have secured more than \$60.2 MM
- Average loan is \$31,800
- Mean loan is \$10,000
- Claim rate of 1.6%

# Going Forward

- NYS sees CAP as providing critical support to its CDFI sector
- Considering amending lender agreements to require return of 75% of LLR funds to allow us to fund the CAP
- Federal budget (and status of CDFI Fund FA and TA grants) will inform how we move forward with those agreements

# Going Forward

New opportunities to leverage CAP –

Partnering with Community Foundations interested in Impact Investment

- IRS Notice 2015-62 provided recent guidance allowing private foundations to consider mission related investing
- NYS and each participating community foundation makes low-interest loan capital available to CDFIs, with CAP providing additional security to the community foundation that the investment is sound
- Win-Win-Win
  - Community foundations realize their missions of investing locally, while at the same time, investing in sound and responsible lenders; they do not have to worry about accounting, deal sourcing, tracking
  - CDFIs access low-interest loan capital
  - NYS sees increase in small business lending in low and moderate income communities, while also helping to foster new and innovative partnerships



California Pollution Control Financing Authority

# California Capital Access Loan Program: Building a Sustainable Program

***State Small Business Credit Initiative Webinar  
May 17, 2017***

Reneé Webster-Hawkins  
Executive Director



## History of CPCFA & CalCAP

- California Pollution Control Financing Authority (CPCFA) is a financing authority which stimulates environmental cleanup, economic development and job growth throughout the State via bonds, credit enhancements and grants.
- Founded in 1973, CPCFA originated as a conduit issuer of tax-exempt bond financing for private pollution control facilities serving a public benefit.
- Fees assessed on bond issuances to large businesses established the Small Business Assistance Fund (SBAF) enabling CPCFA to create additional innovative financing programs, including:
  - The California Capital Access Program (CalCAP), established in 1994 to establish loan loss reserve accounts for participating lenders; and
  - Grants and loans for assessment and remediation of brownfield and infill development sites.



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## CPCFA's CalCAP Programs (1 of 2)

- ❖ **CalCAP for Small Business:** Perfect for working capital, start-up costs, tenant improvements and other typical credit needs.
  - State Program:
    - Began in 1994 with CPCFA's SBAF money: **\$45 million**
    - 2010 State General Fund: **\$6 million**
  - Federal SSBCI Program (2010-2017): **\$19 million**
- ❖ **CalCAP Air Resources Board (ARB) On-Road Heavy-Duty Vehicle Air Quality Loan Program:** For owners of small fleets to finance the purchase or retrofit of heavy-duty diesel trucks driven primarily in California to comply with the State's engine emission standards.
  - Air Quality Improvement Plan money (2009-now): **\$104 million**
- ❖ **Collateral Support Program:** Provides a different kind of credit enhancement for borrowers with strong business plans who lack sufficient collateral.
  - Federal SSBCI Program (2010-2018):



## CPCFA's CalCAP Programs (2 of 2)

- ❖ **CalCAP Electric Vehicle Charging Station Financing Program:** For businesses wanting to install EV chargers for their employees or customers. Borrowers may be eligible for a rebate after 48 months.
  - California Energy Commission (2015-now): **\$2 million**
- ❖ **CalCAP Americans with Disabilities Act Financing Program:** For mom-and-pop businesses to make accessibility retrofits.
  - State General Fund (2016-now): **\$10 million**
- ❖ **CalCAP Seismic Safety Loan Program:** For small businesses and building owners to upgrade the seismic safety of their residential and commercial real estate.
  - State General Fund (2017-now): **\$10 million**

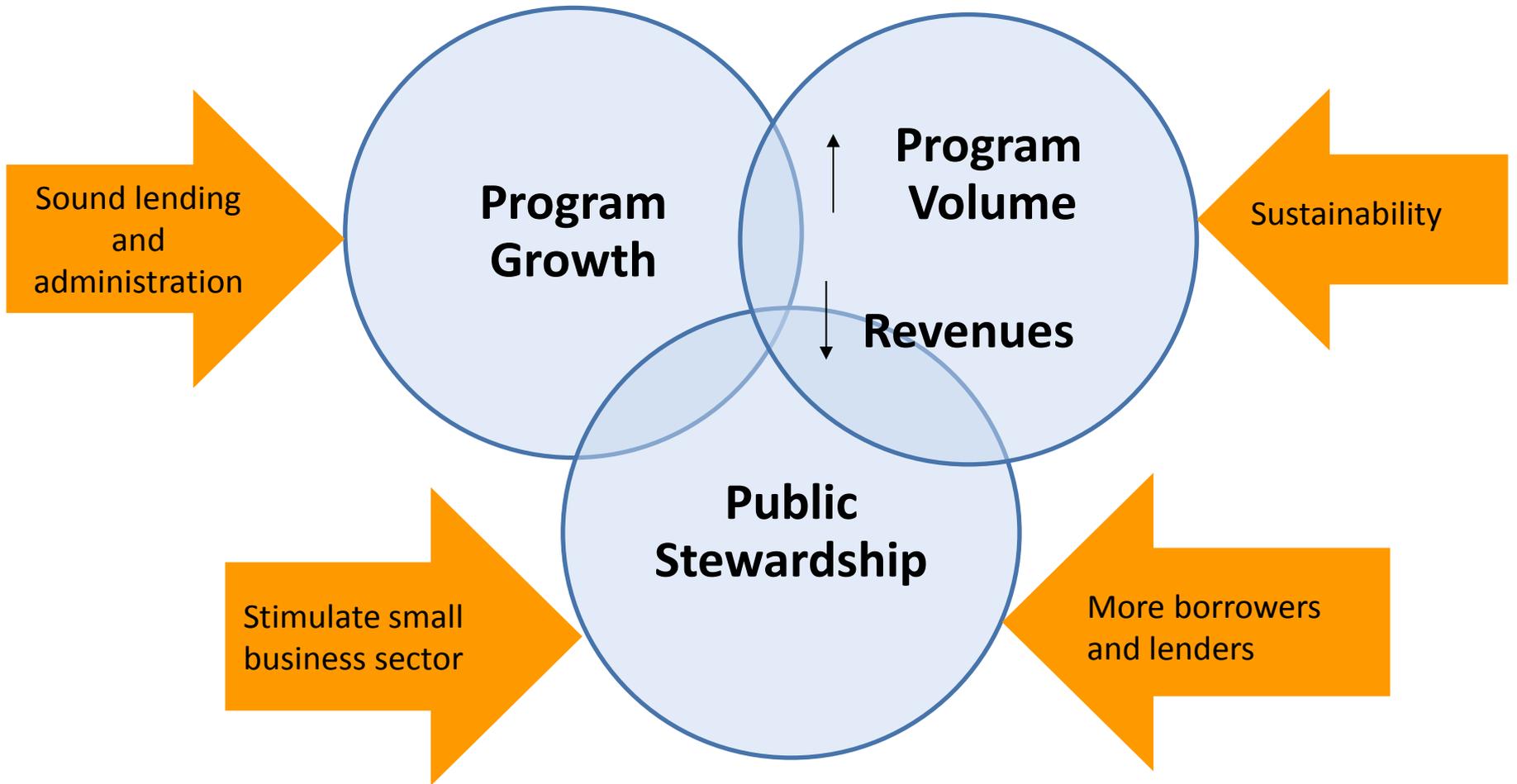
*\*Note: All program funding amounts except for SBAF money include administrative expenses.*



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# CalCAP Objectives



# Participating Financial Institutions: CalCAP Small Business and CalCAP ARB

## Small Business Program

State-Chartered Banks	23
Non-Profit CDFIs	9
Federally-Chartered Banks	3
Community Development Corporations	2
Credit Unions	1
CDFIs	1
<b>Total</b>	<b>39</b>

## ARB Heavy Duty Program

State-Chartered Banks	9
Non-Profit CDFIs	1
Federally-Chartered Banks	3
Finance Lenders	26
Credit Unions	2
Microbusiness Lenders	1
<b>Total</b>	<b>42</b>



# CalCAP Performance Data by Year:

## CalCAP/State

	Total Loans	Total Loan Amount*	Total Contributions **	Claims Enrolled	Total Dollar of Claims	LLR Balance	Ratio
<b>2004</b>	557	\$ 50	\$ 4.4	84	\$ 1.7	\$ 19.4	11%
<b>2005</b>	644	\$ 50	\$ 5.3	35	\$ 0.75	\$ 24	14%
<b>2006</b>	750	\$ 67.7	\$ 5.5	42	\$ 1.5	\$ 28	14%
<b>2007</b>	704	\$ 76	\$ 8.6	58	\$ 2.4	\$ 34.2	15%
<b>2008</b>	519	\$ 61.4	\$ 4.8	89	\$ 7	\$ 32	13.2%
<b>2009</b>	523	\$ 45.8	\$ 3.2	170	\$ 7.8	\$ 27.4	10.5%

\*All amounts in millions

\*\*Includes CPCFA SBAF, and borrower and lender fees



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# CalCAP Performance Data by Year:

## CalCAP/SSBCI

	Total Loans	Total Loan Amount	Total CPCFA Contributions*	Total Borrower & Lender Fees	Claims Enrolled	Default %	Total Dollar of Claims
<b>2011</b>	1,007	\$ 51,979,592	\$ 2,097,171	\$ 2,403,815	84	8.8	\$ 2,298,401
<b>2012</b>	1,229	\$ 40,349,113	\$ 2,090,090	\$ 1,854,441	34	2.8	\$ 750,513
<b>2013</b>	1,503	\$ 44,544,560	\$ 2,364,579	\$ 1,886,793	57	3.8	\$ 1,273,166
<b>2014</b>	1,365	\$ 51,578,176	\$ 2,750,531	\$ 2,546,761	68	5.0	\$ 1,551,075
<b>2015</b>	1,841	\$ 85,571,383	\$ 4,157,733	\$ 3,529,223	43	2.3	\$ 399,924
<b>2016</b>	1,934	\$ 96,811,646	\$ 4,564,432	\$ 4,901,109	112	5.5	\$ 1,431,545

\*Includes federal SSBCI, CPCFA General Fund and CPCFA SBAF



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# CalCAP Program Performance Aggregate Data:

## CalCAP/Small Business

Total Loans (2011-2016)	8879
Total Loan Amount	\$ 370,834,470
Average Loan Amount	\$ 48,913
Average Loan Amount (Excluding Opportunity Fund's enrolled loans)	\$ 102,984
Loans Over \$1 million	63



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# CalCAP Fiscal Data

Program	Program Allocation <sup>1</sup>	Administrative Costs	Net Allocation	Expenditures To Date <sup>2</sup>	Remaining Funds	Est. End Date <sup>3</sup>
CalCAP/SB Federal	\$19,896,095	\$2,467,751	\$17,428,344	\$16,663,267	\$765,077 <sup>5</sup>	June 2017
CalCAP/SB State <sup>4</sup>	\$6,000,000	\$300,000	\$5,700,000	\$3,428,114	\$2,271,886	August 2017
Collateral Support Program	\$65,140,207	\$616,937	\$64,523,270	\$57,132,396	\$7,390,874	December 2017
CalCAP/ARB	\$104,300,000	\$7,301,000	\$96,999,000	\$86,388,721	\$10,610,279	October 2017

<sup>1</sup>The allocations are adjusted from the original award from the U.S. Treasury to reflect an additional \$321,716.50 allocated to CalCAP/SB from a fourth tranche awarded in December 2016, and an additional \$440,207.00 reallocated from the Small Business Loan Guarantee Program to the Collateral Support Program in February 2017.

<sup>2</sup>As of March 10, 2017.

<sup>3</sup>Estimated based on historic program activity data.

<sup>4</sup>The \$6 million allocation appropriated in 2010 from the State General Fund supports additional matching contributions for borrowers located in severely affected communities, for the occasional loan that does not meet the eligibility criteria under the federal SSBCI program rules and when the federal monies are exhausted.

<sup>5</sup>Pending applications submitted to CPCFA will exhaust these monies upon final approval.



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# Recapture: Growing Sustainable CalCAP Programs (1 of 3)

Actual/Planned	Event
<b>May 2015</b>	Lender Webinar: Discussion of ARB's direction to explore increased program sustainability through changes to contribution rates and recapture of funds.
<b>June 2015</b>	CPCFA Board approved ARB I/A.  <i>"To increase the longevity of the Program funds, CPCFA may by regulation establish procedures to recapture funds from a lender's loss reserve account on a periodic basis when enrolled loans mature, to be returned to the Program Account to support future contributions for eligible loans and administrative costs."</i>
<b>Summer 2015</b>	Discussion with individual lenders regarding contribution rates and recapture.
<b>October 2015</b>	Governor signed AB 1230 implementing CalCAP ADA program, including recapture requirement.  <i>"The authority shall adopt regulations pursuant to subdivision (c) of Section 44520 to implement the program, including provisions specific to this program as described in this section and further including provisions to: ... (6) Recapture from the loss reserve account the authority's contribution for each enrolled loan upon the maturation of such loan or after five years from the date of enrollment, whichever happens first, to be deposited in the fund and applied to future program and administrative expenditures."</i>

## Recapture: Growing Sustainable CalCAP Programs (2 of 3)

<b>April 2016</b>	Lender Webinar described recapture for CalCAP/ADA.
<b>June 2016</b>	<p>ADA Stakeholder Webinar</p> <p>CPCFA Board approved ARB I/A requiring recapture.</p> <p><i>“To increase the longevity of the Program funds, CPCFA shall pursue a regulation to establish procedures to recapture contribution funds from a lender’s loss reserve account on an annual basis upon maturity of enrolled loans. These funds shall be returned to the Program Account to support future contributions for eligible loans and administrative costs. Recapture is not applicable for contributions on defaulted or charged off loans for which a claim has been approved, unless the amount recovered through the liquidation of the collateral exceeds the approved claim.”</i></p> <p>Presentation of proposed CalCAP/ADA program to CPCFA Board.</p>
<b>June 27, 2016</b>	<p>SB 837 Budget Bill signed, including CalCAP Seismic Safety program.</p> <p><i>“The authority shall adopt regulations pursuant to Section 44520 to implement the program, including, but not limited to, provisions to: ... (6) Recapture from the loss reserve account the authority’s contribution for each enrolled loan upon the maturation of that loan or after 10 years from the date of enrollment, whichever happens first, to be deposited in the fund and applied to future program and administrative expenditures.”</i></p>

## Recapture: Growing Sustainable CalCAP Programs (3 of 3)

<b>July 2016</b>	Draft regulations for CalCAP/ADA program posted. Public outreach for CalCAP/ADA statewide and via webinar, to describe program and solicit feedback on draft regulations.
<b>August 2016</b>	Proposed regulations to implement CalCAP/ADA to be presented to CPCFA Board, for submittal to OAL.
<b>November 2016</b>	Lender webinar discussing proposed regulations to implement recapture for CalCAP/Seismic Safety.
<b>December 2016</b>	Proposed regulations to implement recapture for CalCAP/Seismic Safety presented to CPCFA Board and approved by OAL.
<b>April 2017</b>	CalCAP Stakeholder Symposium to receive proposals and information regarding the sustainability of the CalCAP programs, including recapture.
<b>Summer 2017</b>	Proposed regulations to implement recapture in both the CalCAP/Small Business and CalCAP/ARB programs.

# Five Proposed Program Changes

*- Identified by current and potential lenders, funders and legislators*

1. **A framework to implement the recapture of funds** from existing loss reserve accounts to support ongoing program contributions and administrative costs.
2. An option for a lender to elect to **pool fees and contributions** from all CalCAP programs into a single loss reserve account, unless a funding source expressly prohibits it.

*(Continued on next slide)*



# Five Proposed Program Changes - Continued

3. **Increasing the initial state contribution for new lenders**, to accelerate the initial build-up of a loss reserve account and incentivize new lender participation into the CalCAP programs.
4. The **establishment of a reservation system**, to facilitate a lender's assurance of the availability of program funding.
5. How to build in incentives for lenders to **maintain default rates at or below the national average** for small business lending.



# Stakeholder 20% Recapture Scenario\*

## 20% X Outstanding Principal Balance of Enrolled Loans

- Minimum threshold = 20% of outstanding principal balance of enrolled loans
- Amount available for recapture = total public contributions for loans matured or older than 5 years
- Contributions made for defaulted loans not included

\*intention of Senate Bill 551, pending in the California State Legislature



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# Contribution Ratio Calculation

$$\frac{\text{Loan Loss Reserve Balance}}{\text{Outstanding Principal Balance}} \geq \frac{\text{Total Fees \& Contributions}}{\text{Total Enrolled Loan Amount}}$$

- Outstanding balance = outstanding principal for active loans that are less than 60 months of age



# Program Data and Recapture Analysis:

## CalCAP/Small Business

		Lender A	Lender B	Lender C	Lender D	
	<b>Current LLR Balance</b>	<b>\$276,505</b>	<b>\$1,751,413</b>	<b>\$13,595,110</b>	<b>\$11,561,766</b>	
Loan Data	# of loans enrolled	228	1648	413	7067	
	Loan Amount Enrolled	\$5,254,716	\$34,938,315	\$181,336,376	\$92,641,527	
	Outstanding Balance	\$2,761,607	\$18,852,131	\$47,877,973	\$26,885,053	
Claim Data	# of claims	9	74	14	411	
	Total Claim Amount	\$136,127	\$1,153,315	\$1,040,243	\$2,430,857	
	Default Rate	3.95%	4.49%	3.39%	5.82%	
Recapture Data	Contributions Available for Recapture		<b>\$14,450</b>	<b>\$851,760</b>	<b>\$4,334,355</b>	<b>\$2,758,183</b>
	Fixed	Percentage	20%	20%	20%	20%
		Recapture Threshold	\$552,321	\$3,770,426	\$9,575,595	\$5,377,011
		<b>Actual Recapture</b>	<b>\$0</b>	<b>\$0</b>	<b>\$4,019,516</b>	<b>\$2,758,183</b>
		<b>Remaining LLR Balance</b>	<b>\$276,505</b>	<b>\$1,751,413</b>	<b>\$9,575,594</b>	<b>\$8,803,583</b>
	Ratio	Percentage	<b>8%</b>	<b>9%</b>	<b>8%</b>	<b>14%</b>
		Recapture Threshold	\$216,122	\$1,654,328	\$3,898,786	\$3,838,913
		<b>Actual Recapture</b>	<b>\$14,450</b>	<b>\$97,085</b>	<b>\$4,334,355</b>	<b>\$2,758,183</b>
		<b>Remaining LLR Balance</b>	<b>\$262,056</b>	<b>\$1,654,328</b>	<b>\$9,260,756</b>	<b>\$8,803,583</b>

*To be continued....*

**Stay tuned to California legislation and rulemaking at:**

➤ [www.treasurer.ca.gov/cpcfa/](http://www.treasurer.ca.gov/cpcfa/)

➤ [http://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill\\_id=201720180SB551](http://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201720180SB551)

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