CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK

STAFF REPORT

APPROVAL OF IBANK'S ENTRY INTO A FINANCING AGREEMENT TO PROVIDE A LOAN OF UP TO $37,500,000 TO THE CALIFORNIA REBUILDING FUND, LLC

A. Introduction

The California Infrastructure and Economic Development Bank ("IBank") staff recommends the IBank Board of Directors (the "Board") adopt Resolution No. 21-08, approving IBank's entry into a financing agreement for a loan (the "Loan") of up to $37.5 Million to the California Rebuilding Fund, LLC (the "Borrower"). Loan monies will be used to finance small businesses struggling to recover from the economic devastation wrought by the Covid-19 pandemic. Resolution No. 21-08 is closely related to Amended and Restated Resolution No. 20-15, approved by the Board on December 16, 2020 (the "A&R Resolution"). The A&R Resolution approved a term sheet for the Loan. Resolution No. 21-08, if adopted, approves the result of that term sheet, the final financing agreement that establishes, evidences, and governs the Loan.

II. Background and Discussion

A. The Board Previously Approved a Term Sheet for the Loan

On August 26, 2020, the Board adopted Resolution No. 20-15 (the "Original Resolution"), approving a term sheet that would serve as the basis for a $25 Million loan from IBank to the Borrower. Thereafter, pursuant to Amended and Restated Resolution No. 20-15 (the "A&R Resolution"), IBank's loan (the "Loan") was increased to up to $37.5 Million. The Loan's purpose is to provide a financing source for small businesses struggling through the Covid-19 pandemic.

The A&R Resolution delegated authority to IBank's Executive Director to, among other things, negotiate a financing agreement for the Loan pursuant to the terms of a term sheet (the "Term Sheet") attached to the A&R Resolution.

B. The Loan is Part of a Multi-Lender Financing Designed to Help Small Businesses Obtain Needed Financing to Recover From the Pandemic

The Borrower is a limited liability company dedicated to addressing the capital needs of economically vulnerable small business struggling to reopen and recover from the economic crisis brought-on by the Covid-19 pandemic.

The Borrower will issue three series of debt, a Series A primarily to commercial lenders and Series B and C primarily to philanthropic organizations, IBank, and other governmental entities. The Series A lenders would be the senior priority lenders, the Series B lenders would be in second priority position, and IBank and the other Series C lenders would be in third position.

Under the Financing Agreement, the Borrower will aggregate the Series A, B, and C loans and use them to make loans to CDFIs. The CDFI's will use this money to make small business loans. The CDFIs will assign the loans to a holding entity wholly-owned by the Borrower and created solely to hold the loans for the benefit of the Borrower. The Series A, B, and C Lenders would be secured by the Borrower's membership interest in the holding entity. In other words, the Lenders would have a security interest in the small business loans indirectly through the holding entity.

Pursuant to the Term Sheet, the Borrower would start making loans to CDFIs when it raised a total of $125 Million in Series A-C Loans for purposes of operating the lending program. The Borrower raising at least $125 Million was a prerequisite to IBank making the Loan.

C. An Unforeseen Flood of Grant and Stimulus Money Delayed the Timing for the Borrower to Meet the $125 Million Threshold and to Get Back on Schedule the Borrower Requests Deviations from the Term Sheet

Following adoption of the Original Resolution and the A&R Resolution, the Borrower and related parties engaged in significant efforts to obtain commitments from other Series A-C Lenders to reach the $125 Million milestone. The Borrower reports it was well on its way to achieving this goal when it had to shift its strategy due to a flood of no-cost and low-cost capital from the State and Federal Governments. The State Government launched a small business grant program and the Federal Government started pumping more stimulus money into the capital markets, with promises of yet more to follow. Small business borrowing forecast for rebuilding loans, even at the low costs offered by the Borrower, shifted to accommodate the relief funding. Attracting additional Series A-C Lenders was impacted by the realization small business borrowers were deluged with other options.

Grants and stimulus money may provide immediate relief to small businesses, but they do not create a sustainable framework for small business financing. Grant and stimulus money will all be spent quickly, and once it is exhausted a sustainable long-term small business lending solution is needed to support small businesses' needs as they rebuild and emerge from the economic downturn caused by the pandemic. The Borrower intends to fill this role and the lynchpin of the Borrower's efforts is the Financing Agreement and IBank's Loan.

To do this, the Borrower relates that it would like to draw on the IBank loan in phases. Instead of IBank disbursing the entire Loan to the Borrower all at once, money will be disbursed as the Borrower obtains loan funds from other Series A-C Lenders. The Term Sheet required that IBank contribute $37.5 Million and the other Lenders contribute at least $87.5 Million. Therefore, the Borrower requests that IBank disburse from the Loan $3 for every $7 disbursed by other Lenders ($37.5 Million is 30% of $125 Million and $87.5 Million is 70% of $125 Million, ergo the 3:7 funding split).

IBank staff supports this requested deviation from the Term Sheet. Because the A&R Resolution authorized the Executive Director to enter into an agreement consistent with the Term Sheet, and the Borrower's suggested draw formula deviates from the Term Sheet, IBank could not make the Loan without further Board approval.

Instead of drafting another term sheet, IBank and the Borrower agreed to draft a final form of financing agreement and seek Board approval of that. Following Board approval, IBank and the Borrower would execute the financing agreement and proceed with the Loan. A substantially final financing agreement is attached as Attachment A to Resolution No. 21-08. Further, there are a few additional areas where the financing agreement deviates from the strict terms of the Term Sheet. Those deviations are shown on Attachment B to Resolution No. 21-08 and to Exhibit A to this Staff Report. IBank staff believes each deviation is commercially reasonable.

III. <u>Conclusion</u>

IBank staff believes each deviation listed in Exhibit A hereto, and the financing agreement attached to Resolution No. 21-08, are commercially reasonable and consistent the State's goals for underserved small busineses. Therefore, IBank staff recommends the Board approve Amended and Restated Resolution No. 21-08.

EXHIBIT A

Key Differences Between Term Sheet and Financing Agreement

Term Sheet	Financing Agreement Revision	Reason for Revision
IBank $37.5M commitment for a $125M first close (30% of the close).	Borrower to conduct a first close with available commitments and grow thereafter, maintaining the 30% ratio of IBank's principal disbursed to other committed capital disbursed.	The Borrower reports some lenders are facing timing challenges with committing capital. Phased closing/disbursement allows CDFIs to start small business lending immediately.
No Class B leverage ratio.	Class B Leverage Ratio of 90%.	Requested by Class B lenders so needed to induce their participation in financing.
No clarity on payment waterfall for Class A and Class B.	Additional clarity in the payment waterfall to pay Class B interest ahead of Class A principal.	Requested by Class B lenders so needed to induce their participation in financing.
Collateral package included the only the Borrower's equity interests in the Blended SPV.	Collateral package includes the Borrower's equity interests in the Blended SPV, certain accounts created under the Financing Agreement, and the Borrower's rights under the CDFI loan agreement.	Lenders required additional collateral as inducement to participate in the Financing Agreement.
No new businesses are eligible.	Up to 15% of each CDFI's lending allocation can be used to provide loans to businesses started since 2019 if they otherwise meet the CDFI's underwriting criteria.	Revision intended to allow financing to re-started small business entrepreneurs forced to close earlier in the pandemic.
Eligible small businesses defined as 50 FTEs and up to $2.5 million in revenue.	Revise definition of eligible small businesses as 50 FTEs with up to $5 million in revenue.	Increasing eligibility to include small businesses with up to $5 million in revenue will allow more small restaurants and other hard-hit industries with higher revenues but lower margins to obtain loans.
Required strict personal credit checks without nuance.	Small businesses remain eligible if there are personal collection accounts for < $1000 and tax liens or judgements	CDFIs report that some credit criteria were too strict when put into practice and were

	more than 10 years old are not automatically disqualifying.	unnecessarily causing strong businesses to be declined.
Potential lenders in third priority position (like IBank) will not have the right to receive any interest.	Lenders in third priority position will have the ability to receive up to 3% interest, but only if the second and first priority lenders are paid in full. The likelihood of third priority lenders receiving any interest is very low.	Potential increase in prime rate could leave excess after Class A and Class B Lenders' interest and principal repaid and Class C Lenders' principal repaid. Class C Lenders should have ability to achieve return instead of excess escheating to the Borrower.