Small Business Finance Center

SBLGP POLICY MANUAL

I. Contents

II. Introduction

About the Small Business Loan Guarantee Program (SBLGP)

The SBLGP offers eligible Financial Institutions (lenders) a mechanism to provide loans to small businesses that may otherwise not be able to obtain a loan under conventional underwriting. With the SBLGP, lenders are provided coverage on guaranteed loan defaults. Loans can be term loans or lines-of-credit, short-term or long-term, have fixed or variable rates, be secured or unsecured, and bear any type of amortization schedule. The loan must be for an eligible business purpose. Guarantees may be for a maximum of seven years.

III. Program Funding Sources

Small Business Loan Guarantee Program State	
Loan Requirements	▪ $20M max loan amount ▪ Loan proceeds must be used in California ▪ Loan proceeds must be used for an eligible business purpose
Max Guarantee	▪ 80% or $5M (whichever is less) outstanding loan guarantee liability per business, including affiliates
Business Requirements	▪ 1-750 employees ▪ The business activity must be eligible under the program and in one of the industries listed in the North American Industry Classification System (NAICS) codes list: https://www.census.gov/naics/
Authorized Loan Types or Uses	Permissible use of loan proceeds may include: ▪ Bridge Loans ▪ Building Purchase ▪ Business Procurement ▪ Construction (new) ▪ Equipment Purchase ▪ Inventory ▪ Start-Up Costs ▪ Tenant Improvements ▪ Working Capital ▪ Franchise Fees ▪ Acquisition of Land ▪ Renovation of Buildings
Fees	▪ Guarantees up to $2.5M: 2.5% of the guarantee amount ▪ Guarantees above $2.5M: 2.5% of the guarantee amount up to $2.5M; plus 2.25% of the guarantee amount above $2.5M ▪ $250 loan documentation fee

SSBCI Federal	
Loan Requirements	▪ $20M max loan amount ▪ Loan proceeds must be used in California ▪ Loan proceeds must be used for an eligible business purpose
Max Guarantee	▪ 80% or $5M (whichever is less) outstanding loan

	guarantee liability per business, including affiliates
Business Requirements	▪ 1-750 employees ▪ The business activity must be eligible under the program and in one of the industries listed in the North American Industry Classification System (NAICS) codes list: https://www.census.gov/naics/
Authorized Loan Types or Uses	Permissible use of loan proceeds may include: ▪ Bridge Loans ▪ Building Purchase ▪ Business Procurement ▪ Construction (new) ▪ Equipment Purchase ▪ Inventory ▪ Start-Up Costs ▪ Tenant Improvements ▪ Working Capital ▪ Franchise Fees ▪ Acquisition of Land ▪ Renovation of Buildings
Fees	▪ Guarantees up to $2.5M: 2.5% of the guarantee amount ▪ Guarantees above $2.5M: 2.5% of the guarantee amount up to $2.5M; plus 2.25% of the guarantee amount above $2.5M ▪ $250 loan documentation fee

Climate Tech Program	
Loan Requirements	▪ $20M max loan amount ▪ Loan proceeds must be used in California ▪ Loan proceeds must be used to purchase emerging clean technology and/or any other purpose deemed eligible by the BAAQMD that is allowable under the SBLGP ▪ Borrower must submit an Engineering Evaluation of the eligible technology by the BAAQMD
Max Guarantee	▪ 80% or $5M (whichever is less) outstanding loan guarantee liability per business, including affiliates
Business Requirements	▪ 1-750 employees ▪ The business activity must be eligible under the program and in one of the industries listed in the North American Industry Classification System (NAICS) codes list: https://www.census.gov/naics/
Fees	▪ Guarantees up to $2.5M: 2.5% of the guarantee amount ▪ Guarantees above $2.5M: 2.5% of the guarantee amount up to $2.5M; plus 2.25% of the guarantee amount above $2.5M ▪ Evaluation fee: .5% of the guarantee amount on all Climate Tech guarantees ▪ $250 loan documentation fee

Disaster Relief Loan Guarantee Program	
Loan Requirements	▪ $1.25M max loan amount

	▪ Loan proceeds must be used to recover from: ✓ Significant Actual Physical Damage ✓ Significant Economic Injury
Max Guarantee	▪ 95% or $1M (whichever is less) based on interest rate: ✓ 95% guarantee – interest rate does not exceed WSJP + 1% ✓ 90% guarantee – interest rate is between WSJP + 1% and WSJP + 2% ✓ 85% guarantee – interest rate exceeds WSJP +2%
Business Requirements	▪ Meets the requirements of the Small Business Loan Guarantee Program and is located in a Disaster Area ▪ The business activity must be eligible under the program and in one of the industries listed in the North American Industry Classification System (NAICS) codes list: https://www.census.gov/naics/
Fees	▪ 2.5% of the guarantee amount ▪ $250 loan documentation fee

IV. Eligibility Requirements

Business Requirements

Eligible and Non-Eligible Small Business Types

Most common small business types are eligible for participation in the SBLGP. However, certain businesses and activities are prohibited from enrolling in the program. This table provides examples and should not be considered a comprehensive listing of eligible or non-eligible small business types.

Type of Business	**SBLGP State**	**SSBCI Federal**
State-designated charitable, non-profit, religious, or other philanthropic institutions	Eligible	Eligible
Government owned corporations	Eligible	Eligible
Consumer and marketing cooperatives	Eligible	Eligible
Faith based organizations (loan must be for a business purpose)	Eligible	Eligible
Businesses that earn more than half their annual net revenue from lending activities (unless a CDFI)	Eligible w/ IBank Exception	Not Eligible
Businesses engaged in speculative activities that profit from fluctuations in price rather than through the normal course of trade	Not Eligible	Not Eligible
Businesses engaged in pyramid sales	Not Eligible	Not Eligible
Businesses engaged in activities that are prohibited by federal law or applicable law in the jurisdiction where the business is located or conducted (includes direct and indirect marijuana businesses)	Not Eligible	Not Eligible

Businesses deriving more than 1/3 of gross annual revenue from legal gambling activities	Not Eligible	Not Eligible
Firms engaged primarily in lobbying activities	Not Eligible	Not Eligible

Eligible Small Business Structures

- ✓ Sole Proprietor – Individual using legal name as business name that files a Schedule C, Schedule F, or has a fictitious business name or DBA statement.

  *If the loan appears to be in the name of an individual, evidence of Sole Proprietorship will be required and may include a Schedule C, Schedule F, Sellers Permit, and/or fictitious business name or DBA statement.

  **Note:* a Fictitious Business Name (FBN) or Doing Business As (DBA) statement is only required when the business name does not include the surname of the individual owner(s) and each of the partners; the business name suggests the existence of additional owners; or the nature of the business is not clearly evident by the name of the business.

- ✓ Limited Liability Company
- ✓ Cooperative
- ✓ Corporation
- ✓ Partnership
- ✓ S-Corporation
- ✓ Not-for-profit
- ✓ Independent Contractor
- ✓ Employee-Owned Entities

IBank will not accept an individual as the borrower. It is permissible for an individual to be a guarantor or co-borrower on the loan, but the primary borrower must be a small business.

Use of Proceeds Requirements

Eligible and Non-Eligible Use of Proceeds

Most uses of proceeds are eligible for enrollment; however, some restrictions apply to loans guaranteed by SSBCI as shown in the table below.

Loan Purpose	**SBLGP State**	**SSBCI Federal**
Purchase tangible or intangible assets	Eligible	Eligible
Start-Up Costs	Eligible	Eligible
Working Capital	Eligible	Eligible
Franchise Fees	Eligible	Eligible
Acquisition of equipment, inventory or services used in the production, manufacturing or delivery of a business's goods or services	Eligible	Eligible
Purchase, construction, renovation or tenant improvements of an eligible place of business that is not used for passive	Eligible	Eligible

real estate investment purposes		
Refinance other financial institution debt provided the original loan was for an eligible business purpose	Eligible	Eligible
Reimburse funds owed to any owner, including any equity investment or investment of capital in the business's continuance	Eligible	Not Eligible
Purchase any portion of the ownership interest of the business (except for the purchase of an interest in an ESOP)	Eligible	Not Eligible
Finance Goodwill	Eligible	Not Eligible
Construction or purchase of residential real estate	Eligible w/IBank Exception	Not Eligible
Repay delinquent federal or state income taxes unless the borrower has a payment plan in place with relevant taxing authority	Not Eligible	Not Eligible
Repay taxes held in trust or escrow (e.g., payroll or sales taxes)	Not Eligible	Not Eligible
Two loans for the same purpose, initiated at the same time AND enrolled in two different government credit enhancement programs	Not Eligible	Not Eligible
Financing a non-business purpose	Not Eligible	Not Eligible
Fund any portion of an SBA loan (guaranteed or unguaranteed)	Not Eligible	Not Eligible
Enrolling same loan in two or more credit enhancement programs for any purpose	Not Eligible	Not Eligible
Lobbying activities	Not Eligible	Not Eligible
Passive real estate investment	Not Eligible	Not Eligible

Eligible Real Estate Transaction Requirements

Purchases of real estate, securities or the acquisition or holding of any other real property for passive investment purposes are not considered eligible business purposes under the SBLGP.

The following sections illustrate eligible real estate purchase under SBLGP and SSBCI. For each, the Lender Credit Memo or FDC Write-Up must indicate the percentage of occupancy for all Commercial Real Estate purchases, whether it be partially or fully occupied by the borrower.

SBLGP State:

1. Real Estate Holding Companies
   Acquisition and holding of real property by a real estate holding company that uses guaranteed loan proceeds and subsequently leases the property to one or more Operating Companies (OC) is permissible if **all** the following criteria is met:

   i. 100 percent of the rentable property acquired with a guaranteed loan must be leased to one or more operating companies.

ii. A holding company can take any legal form or ownership structure.
iii. Operating Company must:
    - Be an eligible small business;
    - Be a guarantor or co-borrower on the loan to the holding company;
    - Not sublease more than 49% of the total rentable square footage for an existing building; and
    - Not sublease more than 40% of the total rentable square footage for a new building.
iv. Both holding and operating companies must:
    - Execute a written lease with a term at least equal to the term of the guarantee; and
    - Provide personal guarantees by each natural person holding an ownership interest of at least 20% of either the passive or operating company.

2. Real Estate Owner Occupancy Requirements
Purchases of real estate used partially by the borrower's business is an eligible business use of SBLGP funds if **one** of the following is met:

i. Funds used for construction of new building: small business must occupy and use no less than 60% of the total rentable property; or
ii. Funds used for acquisition, renovation of an existing building: small business must occupy and use no less than 51% of the total rentable property.

3. Eligible with IBank Exception
If the borrower certifies the property is used in connection with the borrower's business receiving the loan guarantee and not strictly for investment purposes, no specific occupation percentage is required for funds used for passive real estate, with an IBank exception.

Federal SSBCI:

1. Passive Companies
Acquisition and holding of real property by a passive company such as a real estate holding company that uses guaranteed loan proceeds and subsequently leases the property to one or more affiliated operating companies (OC) is permissible if **all** the following criteria are met:

i. 100 percent of the rentable property acquired with a guaranteed loan must be leased to one or more operating companies.
    - Rentable property means the total square footage of all buildings or facilities used for business operations which (1) excludes vertical penetrations (e.g., stairways, elevators, etc.) and all outside areas and (2) includes common areas (e.g., lobbies, bathrooms, etc.)
ii. Operating Company must:
    - Be a guarantor or co-borrower on the loan to the holding company;
    - Not sublease more than 49% of the total rentable square footage for an existing building; and
    - Not sublease more than 40% of the total rentable square footage for a new building.

iii. Both holding and operating companies must:
    - Be eligible small businesses;
    - Execute a written lease with a term at least equal to the term of the guarantee, including options to renew exercisable solely by the operating company;
    - Execute SSBCI Borrower Use of Proceeds and Conflict of Interest Certifications and Borrower Sex Offender Certifications covering all principals; and
    - Provide personal guarantees by each natural person holding an ownership interest of at least 20% of either the passive or operating company.

2. Real Estate Owner Occupancy Requirements

   Purchases of real estate used <u>partially</u> by the borrower's business is an eligible business use of SSBCI funds if **one** of the following is met:

   i. Funds used for construction of new building: small business must occupy and use no less than 60% of the total rentable property; or
   ii. Funds used for acquisition, renovation of an existing building: small business must occupy and use no less than 51% of the total rentable property.

3. Construction Loan

   The term construction loan means a loan secured by real estate made to finance (1) land development (e.g., the process of improving land, such as laying sewer or water pipes) preparatory to erecting new structures or (2) the on-site construction of industrial, commercial, residential or farm buildings. Construction includes new structures, additions or alterations to existing structures or the demolition of existing structures to make way for new structures.

   A construction loan with an original principal amount of $500,000 or less is eligible if **all** following criteria are met:

   i. The building will not serve as a residence for the owner, their relatives or affiliates;
   ii. The building will be put into service immediately;
   iii. The loan is underwritten and made for the purpose of constructing or refurbishing a structure; and
   iv. The building has not been and will not be financed by another SSBCI-supported loan.

<u>Refinance Requirements</u>

<u>State SBLGP:</u>

There are three refinance scenarios, each with its own requirements to be eligible for enrollment in the program. All three scenarios require a statement that clearly identifies the benefit to the borrower from the refinance. All three scenarios also require the previous use of proceeds to be eligible. When refinancing previously guaranteed loans, a CAR must be submitted no later than **90 days** after the maturity date on the original loan.

1. Same Lender Refinance
Same lender refinance is only eligible for enrollment if **all** the following conditions are met:

Same Lender Refinance	
Loan is NOT enrolled in SBLGP	**Loan is enrolled in SBGLP**
1. Refinance is based on new underwriting.	1. Refinance is based on new underwriting.
2. Refinance includes a meaningful advancement of new monies.	2. New loan documents and guarantee documents are executed.
3. Sole purpose is not refinancing debt with same lender (not just refinancing to refinance) indicated by a written benefit to the borrower.	3. Sole purpose is not refinancing debt with same lender (not just refinancing to refinance) indicated by a written benefit to the borrower.
4. Prior loan or line-of-credit has already matured. *Maturity was not accelerated.*	4. The prior loan has been paid as agreed and the borrower is not in default. Other situations may be eligible with IBank exception.
5. The prior loan has been paid as agreed and the borrower is not in default. Other situations may be eligible with IBank exception.	5. The guarantee percentage cannot increase with the new loan.
6. The guarantee percentage must be blended – providing a 0% guarantee on existing lender debt and up to 80% guarantee on new debt. Example: $100,000 @ 0% = $0 (existing debt) $400,000 @ 80% = $320,000 (new debt) **$500,000 @ 64% = $320,000 (total)**	

2. Different Lender Refinance
Refinancing and enrolling a different lender's loan into the program is permissible if **all** the following conditions are met:

Different Lender Refinance
1. Loan being refinanced meets all SBLGP eligibility requirements including eligible purpose, eligible business;
2. Reasonable documentation exists to demonstrate eligible purpose of loan being refinanced; and
3. FDC and/or lender loan write-up explains how the refinance benefits the borrower.

3. Credit Card Refinance
Refinances can only pay off debt of the borrowing business entity and cannot be the personal debt of an individual or guarantor. Paying off business debt accumulated on business credit cards is considered the same as refinancing an existing business loan. For a business credit card debt refinance to be an eligible loan purpose, the credit card statements that show the business name

must be submitted to IBank as part of the CAR. IBank may require statements to show some purchase transactions. IBank will not allow the refinance of a personal credit card, even if the borrower claims it was used for business purposes.

Federal SSBCI:

There are three refinance scenarios, each with its own requirements to be eligible for enrollment in the program. All three scenarios require a statement that the refinance is a benefit to the borrower. All three scenarios also require the previous use of proceeds to be eligible. When refinancing previously guaranteed loans, a CAR must be submitted no later than **90 days** after the maturity date on the original loan.

1. Same Lender Refinance
   Same lender refinance is only eligible for enrollment if **all** the following conditions are met:

Same Lender Refinance	
Loan is NOT enrolled in SSBCI	**Loan is enrolled in SSBCI**
1. Refinance is based on new underwriting;	1. Refinance is based on new underwriting.
2. The amount of the new loan must be at least 150% of the outstanding balance of the loan being refinanced;	2. New loan documents and guarantee documents are executed.
3. Sole purpose is not refinancing debt with same lender (not just refinancing to refinance) indicated by a written benefit to the borrower; and	3. Sole purpose is not refinancing debt with same lender (not just refinancing to refinance) indicated by a written benefit to the borrower.
4. The prior loan has been paid as agreed and the borrower is not in default.	4. The prior loan has been paid as agreed and the borrower is not in default.
5. Proceeds from the transaction may not be used to finance an extraordinary dividend or other distribution;	5. The guarantee percentage cannot increase with the new loan.
6. Prior loan or line-of-credit has already matured. *Maturity was not accelerated.*	
7. The guarantee percentage must be blended – providing a 0% guarantee on existing lender debt and up to 80% guarantee on new debt. Example: \$100,000 @ 0% = \$0 (existing debt) <u>\$400,000 @ 80% = \$320,000 (new debt)</u> **\$500,000 @ 64% = \$320,000 (total)**	

8. If the loan is already enrolled in SBLGP but being refinanced into SSBCI, the guarantee percentage cannot increase with the new loan.	

2. Different Lender Refinance

Refinancing and enrolling a different lender's loan into the program is permissible if **all** the following conditions are met:

Different Lender Refinance
1. Proceeds from the transaction may not be used to finance an extraordinary dividend or other distribution;
2. Loan being refinanced meets all SSBCI eligibility requirements including eligible purpose, eligible business;
3. Reasonable documentation exists to demonstrate eligible purpose of loan being refinanced; and
4. FDC and/or lender loan write-up explains how the refinance benefits the borrower.

3. Credit Card Refinance

Refinances can only pay off debt of the borrowing business entity and cannot be the personal debt of an individual or guarantor. Paying off business debt accumulated on business credit cards is considered the same as refinancing an existing business loan. For a business credit card debt refinance to be an eligible loan purpose, the credit card statements that show the business name must be submitted to IBank as part of the CAR. IBank may require statements to show some purchase transactions. IBank will not allow the refinance of a personal credit card, even if the borrower claims it was used for business purposes.

<u>Minimum National Consumer Protection Standards (Federal SSBCI):</u>

Rate Cap: The interest rate for each individual loan, at the time of obligation, may not exceed the National Credit Union Administration's (NCUA) interest rate ceiling for loans made by Federal Credit Unions.

Exclusion of Certain Features: SSBCI-supported transactions may not include any of the following:

(1) Confessions of judgment.

(2) "Double-dipping" fees. "Double dipping" occurs when a lender issues new credit to refinance prior credit without forgiving a portion of the fee already paid and results in the borrower paying a fee on top of a fee. Accordingly, SSBCI supported transactions may not include double-dipping fees.

(3) Prepayment fees can be used by creditors to hide costs to borrowers and charge fees that can be detrimental to the borrower. However, prepayment fees may be customary for certain larger commercial loans and may enable lenders to charge lower interest rates that benefit borrowers in general. To balance these interests, for SSBCI-supported transactions:

• For loans with an original principal amount under $100,000, lenders may not include prepayment fees.

• For loans with an original principal amount of $100,000 or more, lenders may include prepayment fees so long as any such fees are reasonable, customary, and clearly disclosed to the borrower.

(4) Upfront fees or charges paid by the small business, excluding fees to the jurisdiction program, that exceed 3 percent for loans greater than $25,000 or $750 for loans $25,000 and under. Upfront fees or charges that count toward this cap include, but are not limited to, application fees, origination fees, and document preparation fees. Lenders may also charge small business borrowers for out-of-pocket expenses the lenders incur that are common to commercial loan transactions. Payment of these expenses is not subject to the cap, provided the out-of-pocket expenses are reasonable and customary. Out-of-pocket expenses may include, but are not limited to, out-of-pocket expenses for title insurance, title examination, property surveys, appraisals, environmental site assessments, notarizations, and credit reports. Note that out-of-pocket expenses do not include salaries and wages paid to employees of the lender.

Disclosure of Terms: SSBCI-supported transactions must include disclosure by the lender or investor of all key terms in an easy-to understand manner. Such disclosures should include, for example, the loan or investment amount; payment obligation and schedule; any terms giving the lender or investor control over the borrower's or investee's cash balances, cash flows or ownership; any conversion rights and future rights to purchase equity; and any fees or extra costs. This minimum standard applies across all SSBCI programs; however, these standards do not supersede disclosure requirements that may apply under other applicable law. All applicable federal and state securities and lending disclosure laws, rules, and regulations continue to apply.

V. Enrolling a Lender

Overview

To participate in the SBLGP and maintain a lender/guarantor relationship with FDCs, a lender must first certify that it is in possession of sufficient commercial lending experience, financial and managerial capacity, and operational skills. A lender can apply for enrollment into SBLGP by completing a "Lender Certification to Participate" and emailing it directly to IBank at SBFC@IBank.ca.gov, or through the FDC of choice.

IBank will review the certification and evaluate the lender according to SBFC procedures. Federal or State-Chartered Banks and Credit Unions must have a minimum Bauer rating of 3 stars. There may be no regulatory action against the lender. If a lender does not meet the standards, the request to participate will be declined. Lenders are required to submit the "Lender Certification to Participate" each fiscal year.

Eligible Financial Institutions

The following lenders are eligible to participate in the SBLGP:

- ✓ Federal or State-chartered Bank
- ✓ Savings Association
- ✓ Certified Community Development Financial Institutions (CDFI)

- ✓ Credit Union
- ✓ Farm Credit System Insurance Corporation (FCSIC)

  * Other Financial Institutions with IBank Exception

Non-Eligible Lenders

Examples of lenders that do not qualify to participate include, but may not be limited to, finance companies, brokers, pay-day lenders, and private party lenders.

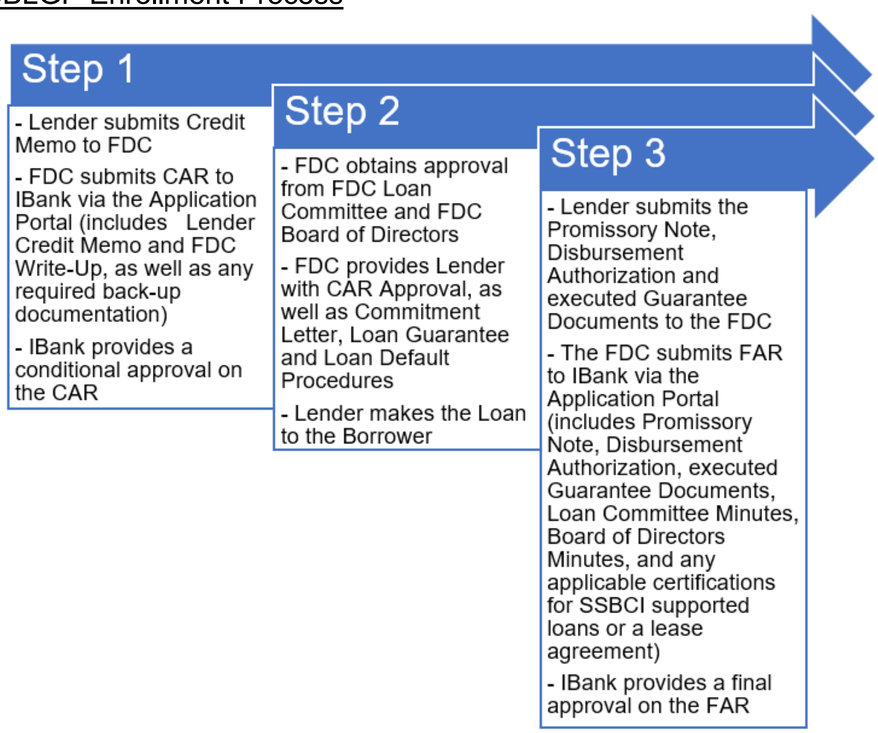
VI. Enrolling a Loan Guarantee

Overview

SBLGP enrollment and final guarantee documents should be sent to IBank through the online application portal at the following address: http://applications.ibank.ca.gov. FDCs must submit a “Conditional Approval Request” (CAR) to IBank **before** the loan is made. Final guarantee documents must be received by IBank within **30 calendar days** of the FDC and lender signing the guarantee. Lender credit memo or FDC write-up must contain the ownership structure of all business entities including percentage of ownership. Owner names and percentage of ownership must be included in write-up. CAR commitments are valid for **90 calendar days** from approval date. If an FDC or lender needs more time, you may submit a CAR extension request to SBFC@IBank.ca.gov for approval. All loans sent back to the FDC in FAR Review status must be remedied within **30 calendar days**. The FDC receives an email from the Portal stating what is needed to complete the final approval.

For detailed instructions on how to complete the SBLGP CAR, please refer to SBLGP Forms and Instructions.

SBLGP Enrollment Process



Note: All guarantees are considered under SSBCI unless IBank deems them ineligible for SSBCI and enrolls them in the State SBLGP. FDCs must complete, sign, and date the following forms and documentation with each guarantee enrollment:

When to submit to IBank:	**CAR**	**FAR**
Required for State SBLGP and SSBCI		
1. Conditional Approval Request (CAR) in Portal	✓	
2. Lender Credit Memo	✓	
3. FDC Loan Write-Up	✓	
4. Promissory Note		✓
5. Disbursement Authorization/Proof of Fees		✓
6. Commitment Letter		✓
7. Guarantee Agreement		✓
8. Default Procedure		✓
9. FDC Loan Committee Meeting Minutes		✓
10. Board Approval Meeting Minutes		✓
Required for SSBCI		
11. Lender Use of Proceeds and Conflict of Interest		✓
12. Lender Sex Offender Certification		✓
13. Borrower User of Proceeds and Conflict of Interest		✓
14. Borrower Sex Offender Certification		✓
15. Borrower SEDI Certification		✓
If Applicable		
16. Lease Agreement for Eligible Real Estate Transactions		✓
17. Borrower Certification for Demographics Related Data		✓

VII. Submitting a Demand on a Guarantee

<u>Overview</u>

Pursuant to IBank's Loan Guarantee Demand Procedures as outlined in Section 5003 of IBank's SBLGP Directives & Requirements, the lender shall be authorized to make a demand upon the FDC for repayment of the defaulted loan's unpaid principal, and interest up to 90 days earned but unpaid.

The lender must submit specific documents to the FDC within timelines prescribed by IBank's SBLGP Directives & Requirements. Similarly, once FDCs are notified of a demand, FDCs must also comply with certain requirements before IBank issues any payments on the defaulted loan.

For a guarantee demand to be paid by IBank, lenders and FDCs must submit a "Request for Payment on Defaulted Guarantee" form to IBank. For detailed instructions on how to complete the "Request for Payment on Defaulted Guarantee" please see SBLGP Forms and Instructions.

All demand documents must be emailed to IBank at: SBFC@ibank.ca.gov.

SBLGP Demand Request

Lender Demand of FDC

- Two lender delinquency letters must be sent to the borrower at least 30 days apart and explain the consequences for failure to remedy the delinquency. Copies of the letters must be delivered to the FDC at the same time they are sent to the borrower.
- The demand letter to the FDC must contain a calculation of the unpaid loan principal and interest balance and must be accompanied by evidence of the borrower's default (i.e., loan payment history records). The guaranteed interest amount is calculated based on the outstanding principal loan balance at the time of default and cannot exceed 90 days.
- The lender must liquidate all borrower collateral by converting the collateral into cash. Lenders are only exempt from the liquidation requirement if the borrower has filed for bankruptcy, the lender can demonstrate that the collateral is without sufficient value to convert to cash, or lender can show good faith effort to liquidate.
- Liquidated collateral must be deducted from the outstanding loan principal balance.

  Example: Outstanding principal loan balance is $10,500. Liquidated collateral yields $5,000. The adjusted principal balance is $5,500 ($10,500 minus $5,000). With a guarantee percentage of 80%, the <u>guaranteed principal</u> amount is $4,400 (80% of $5,500).
- For term loans, if original disbursement is "undisbursed", follow-up disbursement documentation will be required at the time a demand is made against the guarantee and must be available when requested by IBank for audits.

FDC Demand on IBank

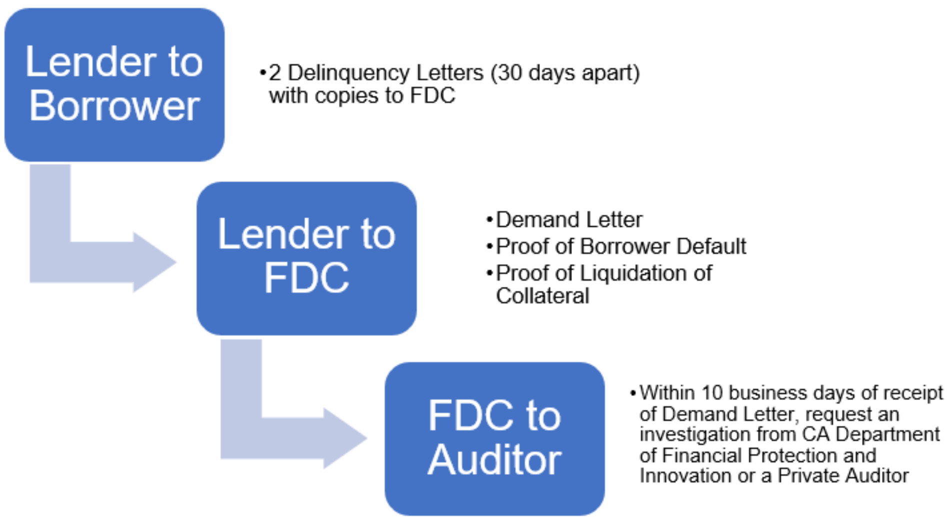
- Within **10 business days** of receipt of the demand letter from the lender, FDCs must contract with an independent auditor or the California Department of Financial Protection and Innovation to conduct an investigation on whether the lender complied with all terms of the guarantee. The report must address all items described in IBank's SBLGP Directives & Requirements Section 5003(a)(4)(i)-(ix).
- Within **10 business days** of receipt of the investigation report, FDCs must submit to IBank a request for payment or notify the lender that the demand has been denied.
- FDCs must contact the lender within **5 business days** of receipt of the IBank electronic payment to make arrangements for delivery of the payment to the lender. Upon delivery, the FDC must collect an assignment of the lender's interest in the loan including the loan note and all collateral.

Checklist for Lender Demand on FDC	
1. Two Delinquency Letters to Borrower	✓
2. Demand Letter	✓
3. Proof of Borrower Default	✓

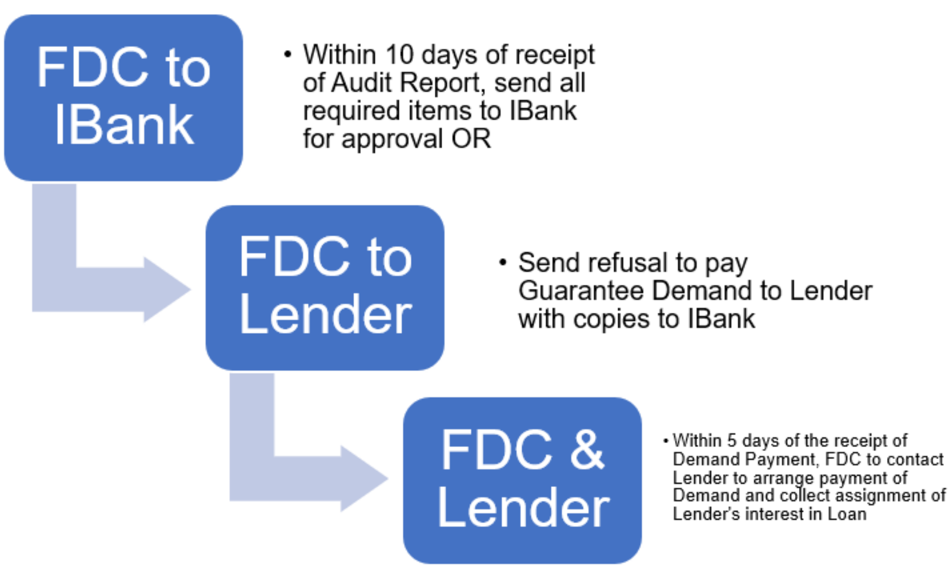
4. Proof of Liquidation of Collateral	✓
Checklist for FDC Demand on IBank	
1. Demand Cover Letter	✓
2. Investigation Report	✓
3. Request for Payment on Defaulted Guarantee (or notice to lender of refusal of payment)	✓
4. Two Delinquency Letters to Borrower	✓
5. Collect Assignment of Lender's Interest in the Loan	✓

<u>Demand Process</u>

Phase I: Demand and Request for investigation



Phase II: Submission to IBank



VIII. Additional Program Requirements

FDC Loan Approval

FDC board of directors are given the responsibility to approve or decline loan applications reviewed by the FDC's loan committee. The board of directors has the ability to delegate approval authority to the loan committee.

Disclosing Conflicts of Interest

FDCs are required to inform IBank (via email and FDC Credit Memo) of any actual, potential, or perceived conflicts of interest between the FDC and/or IBank and the lender and/or borrower (including affiliates and guarantors). This includes the organization, boards, committees, individuals, and family members of these entities. IBank reserves the right to refuse to issue a guarantee or require a guarantee be initiated by a different FDC based on any actual, potential, or perceived conflict of interest.

Affiliation:

Affiliation exists when one business controls or has the power to control another or when a third party controls or has the power to control both businesses. It does not matter whether the control is exercised, so long as the power to control exists. Control may arise through ownership, management, or other relationships or interactions between the parties.

Example:

Business A is owned 100% by John Doe. Business B is owned 100% by Jane Smith. Business C is co-owned by both John Doe and Jane Smith. Business A and Business C are considered affiliates. Business B and Business C are considered affiliates. Business A and Business B are not considered affiliates.

Assigning a Unique Loan Number

Each loan in the application portal must have a unique loan number associated with it. The loan number cannot be a duplicate and associated with more than one loan. Denied or withdrawn loan numbers cannot be reused or assigned to new loan applications. Federal SSBCI loans should be noted with the letters FS at the end (e.g., CA1234FS).

Loan Modifications

FDCs must obtain IBank's prior written consent for modifications to existing loan guarantees. Situations that may require approval include:

- Changes to maturity
- Changes in the amount of the loan
- Release or reduction of collateral
- Changes in payment and/or amortization schedule
- Increase in guarantee percentage

Sale of Loans on Secondary Market

The Lender may assign all or part of the Guaranteed portion of the Loan to one or more Holders, except that the Lender is required to retain a minimum of ten percent (10%) of the Loan amount, and the Lender shall retain the responsibility for servicing the Loan.

The Lender shall submit the required information about the assignment prior to the assignment of the loan to the Holder. The Financial Development Corporation must sign the assignment registration form and submit it to the Small Business Finance Center Manager for approval. The lender is not authorized to assign the loan without an approval signature from the Small Business Finance Center Manager. The information submitted to IBank regarding the assignment (the assignment registration form) shall consist of the items listed below:

1. The date of assignment or participation.
2. The Loan number.
3. A description of the Loan including the date the Loan was executed, and the name of the Borrower.
4. The outstanding balance of the Loan.
5. The percent of Loan Guarantee assigned to the Holder.
6. A certification that the Loan is not in Default and no Default is pending.
7. A certification that Holder complies with the requirements described in Section 5021(a)(1) through (a)(3) of the Directives and Requirements.
8. The Holder's contact person, mailing address, telephone number, and if available facsimile number and e-mail address.
9. The Lender's contact person, address, telephone number, and if available facsimile number and e-mail address.
10. The titles and dated signatures of the Lender and the Holder.
11. The title and dated signature of the Corporation.
12. The title and dated signature of the Small Business Finance Center Manager.

IX. FDC Operational Policies

Board of Directors:

IBank has the ongoing responsibility to see that the character and general fitness of the individuals who sit on the FDCs Board of Directors command the confidence of the State and warrant the belief that the FDC will honestly and efficiently conduct its business in accordance with the guidance that governs the Small Business Finance Center and its programs.

Pursuant to Section 14014 of the Corporations Code, the Board of Directors must meet the following:

- A person may not serve on the Corporation’s Board of Directors who is not a resident of, or person conducting business in, the primary service area described in the Corporation’s articles of incorporation.
- Except as otherwise required by California law, the Corporation’s Board of Directors shall include representatives from all the following:
    - The financial community.
    - The business community.

    - The economically disadvantaged.

- The chief executive officer of the Corporation, or his or her designee, is the only employee of the Corporation who may serve on its Board of Directors.
- A person who has a financial interest related to a matter over which the Corporation’s Board of Directors has authority may not make, participate in making, or in any way attempt to influence that matter;
- Pursuant to Section 5001 of the Directives and Requirements, no Guarantee shall be executed by a Corporation until the proposed Guarantee has been reviewed by the Corporation's loan committee and approved by its Board of Directors, unless the Corporation's Board of Directors has delegated the authority to approve a proposed Guarantee to the Corporation's loan committee, and such delegation is in accordance with IBank policy under the Small Business Finance Center Rules.
- Pursuant to Section 5001 of the Directives and Requirements, no Guarantee shall be approved or executed by a Corporation if the Lender is the same entity as the Corporation or an affiliate of the Corporation or Lender.
- Pursuant to Section 5001 of the Directives and Requirements, no Guarantee shall be approved or executed by a Corporation if the Lender is the same entity as the Corporation or an affiliate of the Corporation or Lender.

The SBFC Manager may attend and participate at corporation meetings. The program manager, or their designee, shall be an ex officio, nonvoting representative on the Board of Directors and Loan Committees of each corporation.

Loan Committee:

Each FDC shall establish one or more Loan Committees, each of which shall be composed of five or more persons, a majority of whom shall be experienced in banking and financing operations.

A Loan Committee shall review applications to the corporation for a loan or guarantee and shall do each of the following:

- Determine the feasibility of the proposed transaction. The loan committee shall recommend approval of the application only upon the determination that there is a reasonable chance that the loan will be repaid.
- On the basis of that determination, recommend to the Board of Directors any action that the loan committee deems appropriate under the circumstances, or, in the event that approval authority has been delegated to the loan committee by the Board of Directors, approve of disapprove the application.
- The loan committee shall expeditiously act to accept or reject loan applications.
- A person who has a financial interest related to a matter over which the loan committee has authority may not make, participate in making or in any way attempt to influence that matter.

Delegation of Authority

The Board of the Directors may delegate approval authority to the Loan Committee or to the FDC President/CEO. If approval authority is delegated to the Loan Committee, they may approve or disapprove loan guarantee applications.

X. Reporting Requirements

FDCs are required by both SBFC guidance and by contract to regularly report the status of outstanding loan guarantees to the SBFC. Additionally, guidance requires certain reporting requirements to be submitted annually for an FDC to remain in good standing.

Required Reporting	
Active Loan Guarantee Report	Quarterly, within 15 days of the end of each quarter
Articles of Incorporation & Bylaws from prior FY	Annually, by July 31st
Board Approved FDC Budget for current FY	Annually, by July 31st
FDC Strategic Plan or Plan of Operation	Annually, by July 31st
Full FDC Staff Roster	Annually, by July 31st
List of Names of All Employees, Loan Committee Members and Board of Directors Members	Annually, by July 31st
Projected Fiscal Year Summary of Authorized Program Activities	Annually, by July 31st
Audited Financial Statements/Form 990s	Annually, by October 31st

<u>Quarterly Reporting</u>

At the end of each quarter, FDCs must submit an Active Loan Guarantee Report to IBank that includes the current balance and credit rating of active guarantees, a notification of guarantees that are no longer active, defaulted guarantees and any recoveries made in the quarter. The Active Loan Guarantee Report is a spreadsheet created by the SBFC and provided for the FDCs and lenders.

Reports are due via email at SBFC@IBank.ca.gov within 15 days of the end of each quarter as follows:

Quarter Begins	Quarter Ends	Due to IBank
Jan 1st	March 31st	April 15th
April 1st	June 30th	July 15th
July 1st	September 30th	October 15th
October 1st	December 31st	January 15th

<u>Annual Reporting</u>

California Government Code Chapter 6 - Small Business Financial Assistance Act of 2013, Article 11 Section 63089.97 specifies reporting requirements for FDC. Pursuant to the Government Code, FDCs must annually submit their:

- Articles of Incorporations & Bylaws
- Audited Financial Statements/Form 990s
- Board Approved Budget
- Strategic Plan or Plan of Operation
- Projected Fiscal Year Summary of Authorized Program Activities

- Full FDC Staff Roster

All annual reports must be submitted to IBank **by July 31.** The Audited Financial Statements are due to IBank **by October 31** for the prior fiscal year. These reports can be in any format. IBank does not supply templates or have specific substance requirements other than what is listed in the Government Code. Refer to the SBFC Guidance Manual for the full text of Government Code 63089.97.

In addition, FDCs are also required to submit a full staff roster IBank. The staff roster should list names, titles, email addresses and phone numbers of all employees, loan committee members, and Board of Director members.

Changes in FDC Contacts

To ensure the FDC is aware of all current IBank Directives & Requirements as well as changes to program policies or practices, FDCs are required to keep IBank informed about any changes to key FDC contacts by providing IBank with the new or updated name, address, phone, or email contact information.

Updates should be submitted to IBank's SBFC email at: SBFC@ibank.ca.gov.

Record Retention Requirements

For loans guaranteed by the Federal program, the State Small Business Credit Initiative (SSBCI)**, lenders and FDCs must retain all financial records and supporting documents at least through June 30, 2031.**

IBank's record retention policy for all other loans is as follows:

- All financial records and supporting documents for Guarantees must be kept for 5 years from the date the Guarantee expires.

- All financial records and supporting documents for any Demand must be kept indefinitely if monies are still owed and/or instruments still held.

- Fully recovered Guarantee Payments must be kept for 7 years from the date of full recovery.