**Legal Title**
Small Business Loan Reserve Fund

**Legal Citation/Authority**
Chapter 1064, Statutes of 1977
Financial Code sections 3800-3853

**Purpose**
For the purpose of financing a small business loan program. The program was developed to meet the needs for capital of well operated small businesses that cannot provide adequate security to qualify for normal bank loans. The criteria for eligibility of businesses for loans under this program is based on regulations adopted by the Superintendent of Banks.

Under this program, banks make loans to eligible small businesses with the risk from possible default being partially shared by the state. The lending bank establishes a premium charge which may range from six percent to 15 percent of the loan amount. This charge is shared equally by the borrower, the lender and the state. The borrower's portion and the lender's portion of the premium are submitted by the lending bank to the State Banking Department for deposit in the fund. The state's portion of the premium is paid into the fund out of moneys appropriated by the Legislature for that purpose.

The State Banking Department invests the moneys in the fund, not currently needed for administrative costs, in certificates of deposit with lender participants in proportion to their participation in the program. All income derived from such investments is deposited in the fund and is to be used exclusively for support of the small business loan program.

The interest rate to be charged on such loans is established by the Superintendent of Banks in accordance with Section 3835 of the Financial Code. The rate is between five and eight percent plus the rediscount rate or interest rate member banks must pay for advances from the Federal Reserve Bank of San Francisco, prevailing on the 25th day of the month preceding the date of execution of the loan.

In the event of default of a borrower under this program the lending bank is entitled to recover the actual loss from the fund, including up to $500 for expenses incurred in attempting collection of the loan. However, the total amount recovered may not exceed the amount retained in the fund attributable to the lender who made the loan.

This consists of the borrower's share, the lender's share, and the amount deposited by the state in the fund from premium deposits for all loans initiated by the lender under this program, less any previous
payments made to the lender as a result of previous loan defaults. The state's liability is limited to the amount appropriated from the General Fund and allocated to the Small Business Loan Reserve Fund as its share of the premium charge on loans.

Any amounts recovered by a lender subsequent to a claim payment for loss on a defaulted loan shall be deposited in the fund to the credit of the lender to reimburse the fund for the amount of the loan default payment.

Chapter 1064/77 appropriated $1,000,000 from the General Fund for the state's share of premium contributions to the Small Business Loan Reserve Fund during the 1977-78 fiscal year. This chapter also appropriated $100,000 from the State Banking Fund to the Small Business Loan Reserve Fund the initial costs of the State Banking Department in administering this program.

If the income from moneys invested through the Small Business Loan Reserve Fund exceeds the amount needed to administer the program, the executive director of the program may order the State Controller to transfer such excess to the State Banking Fund. However, such transfers may not exceed the amount transferred from the State Banking Fund to the Small Business Loan Reserve Fund.

**Administering Agency/Organization Code**
State Banking Department/Org 2140

**Major Revenue Source**
Premium deposits on small business loans, including the state's share.

Interest on certificate of deposits placed with participating lender banks.

**Disposition of Fund (upon abolishment)**
Reimbursement of lending banks for losses on defaulted loans.

Costs of the State Banking Department in administering the program.

**Appropriation Authority**
Section 3822 of the Financial Code continuously appropriates the fund "...without regard to fiscal years, for the purposes of this chapter.

**State Appropriations Limit**
Always Excluded – Revenues in this fund are not proceeds of taxes and even after transfer, will never become proceeds of taxes because the major revenue source is derived from a Trust and Agency Fund (Non-Federal).

**Comments/ Historical Information**
Abolished by Chapter 1164, Statutes of 1993, section1

Abolished June 2010