

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: July 13, 2011  
POSITION: Neutral

BILL NUMBER: AB 796  
AUTHOR: B. Blumenfield  
RELATED BILLS: AB 901, AB 981,  
SB 225

**BILL SUMMARY: CPCFA: CalCAP increased loan loss reserve limit**

This bill would:

- Increase the amount of money a participating financial institution may deposit into a California Pollution Control Financing Authority (CPCFA) Capital Access Loan Program for Small Businesses (CalCAP) loan loss reserve account from \$100,000 to \$200,000 over a three-year period, if the matching contribution made by the authority would be funded exclusively from federal funds made available pursuant to the federal Small Business Jobs Act of 2010.
- CPCFA would not be able to use more than 50 percent of the total available funds for matching contribution purposes toward the loan loss reserve accounts exceeding \$100,000.

**FISCAL SUMMARY**

Per the State Treasurer’s Office (STO), this change is minor and associated costs are absorbable for CalCAP.

**COMMENTS**

Finance is neutral regarding the bill.

- Per STO, increasing the maximum contribution amount of CalCAP loan loss reserve accounts, if federal moneys are available, would address concerns raised when larger loans are needed to meet the needs of businesses related to clean technologies.
- Finance has no concerns with increasing the CalCAP loan loss reserve account maximum contribution limit from \$100,000 to \$200,000 as long as federal funds are available to fund the increase in program costs associated with the higher loan loss reserve maximum.
- The STO has no position on this bill.
- AB 981 (Hueso, 2011) conflicts with this bill due to amendments proposed for the same code section (Health and Safety Code section 44559.3). AB 981 amendments are sponsored by the STO and would allow for non-substantive technical changes recommended by CPCFA that allows for the withdrawal of all, or a portion of, (instead of all) the interest or other income that has been credited to a loss reserve account.

**ANALYSIS**

Analyst/Principal (0190) O. Chaves	Date	Program Budget Manager Veronica Chung-Ng	Date
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Department Deputy Director	Date
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Governor’s Office:	By:	Date:	Position Approved _____
			Position Disapproved _____

**BILL ANALYSIS** Form DF-43 (Rev 03/95 Buff)

B. Blumenfield

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AB 796

Existing law provides for the CPCFA to administer CalCAP for the purpose of encouraging financial institutions to make loans to small businesses (for projects to prevent or reduce environmental pollution) that are slightly outside of conventional underwriting standards. CalCAP provides a form of loan portfolio insurance that may cover up to 100% on certain loan defaults.

Each lender is entirely liable for its loan losses; however, those losses can be reimbursed from each lender's loan loss reserve account. A loan loss reserve account is established for each participating lender with contributions made by the lender, the borrower, and CalCAP each time a loan is enrolled under CalCAP. For example, if the lender and the borrower each pay a 2% premium, CalCAP will typically pay 4%, thus totaling altogether 8% of the loan amount. As the lender enrolls more loans, the dollar value of the loss reserve account increases and often provides between 8% to 14% loss coverage for the portfolio of covered loans. When a borrower defaults on an enrolled loan, the lender has immediate coverage (up to 100%) of the loss. Any amount recovered from the borrower relating to the loan default, less the lender's expenses for recovery, is returned to the portfolio loss reserve account.

The clean technology industry has indicated that financing is a critical component for businesses to not seek more affordable locations. CalCAP has been successful in addressing aspect of financing that is the greatest burden for these companies, but currently is limited to small businesses. CalCAP is authorized to make use of funds provided by federal capital access programs or other sources. This bill would allow for larger-sized projects by increasing the loan loss reserve contribution by utilizing available federal matching contributions. Potentially allowing clean energy technology companies an incentive to stay and expand in California.

**Related bills:**

AB 901 (V. Manual Perez, 2011) would expand the definition of financial institutions and increase reporting requirements for the CalCAP program, which anticipates receiving multimillion dollar federal and state funding through the federal and state Small Business Jobs Act of 2010. The STO has no position on this bill.

AB 981 (Hueso, 2011) would allow CPCFA greater flexibility to contribute to loan loss reserve accounts related to loans provided in areas qualifying as "Severely Affected Communities" and make other non-substantial technical changes. This bill is sponsored by the STO.

SB 225 (Simitian, 2011) would allow certain truck leases to qualify for the CalCAP loan loss reserve contributions provided by the Air Resources Board, encouraging California fleets to purchase vehicles in compliance with recent regulation. This bill is supported by the STO.

Code/Department Agency or Revenue Type	SO	(Fiscal Impact by Fiscal Year)							Fund Code
		LA	(Dollars in Thousands)						
	CO	PROP	FC	2011-2012	FC	2012-2013	FC	2013-2014	
0974/Poll Control	SO	No		----- See Fiscal Summary -----					8501
<u>Fund Code</u>	<u>Title</u>								
8501	Capital Access Fund, California								