

EXHIBIT B



THE CITY OF LODI HOMETOWN MICROLOAN PROGRAM

(Revised November 20, 2024)

EXECUTIVE SUMMARY

California Capital Financial Development Corporation (California Capital) proposes to administer the City of Lodi Hometown Microloan Program to provide loans to entrepreneurs and micro business owners in the City of Lodi. Aligned to the mission of California Capital, this program will prioritize borrowers who are low-income, minority, women, disabled and veteran small business owners, with the objective of helping these businesses thrive and building financial capacity to qualify for future capital needs. We wholeheartedly support the efforts of the City of Lodi to establish a revolving loan fund and to foster a local continuum of entrepreneurship and small business services to promote business growth, attraction, and retention. This proposal demonstrates our capacity, mission alignment, and ready-to-deploy capital programs that will help the City of Lodi achieve these goals.

A Hybrid Approach

California Capital will adopt a hybrid approach to administering the program as described in the Request for Proposal, with the objective of establishing a revolving loan fund for the City of Lodi while leveraging additional capital from our Lending Center to support the diverse needs of borrowers.

Lodi Hometown Microloan Fund - \$340,000 of the total City of Lodi budget will be used to establish the primary source of funds for the Microloan Program. From this pool of capital, California Capital uses a fee-based approach to originate, underwrite, and administer the loans. Leveraging the criteria provided in the Hometown Microloan Policy and Administrative Procedures Manual, we anticipate approximately 16 loans with an average loan size of \$21,000. Repayment from these loans will revolve back to the City of Lodi along with interest, growing the Revolving Loan Fund over the 5-year repayment of the loans.

Leveraged Capital - California Capital will supplement the Lodi Microloan Hometown Fund with approximately \$250,000 in additional capital from our microloan and small business loan programs. Our loan policies closely match the City of Lodi's loan policies and we embrace partnerships which can help lower interest rates and fees for small businesses. Our Leveraged Capital programs will address borrowers who may need additional capital beyond the average amount of a loan under the Lodi Hometown Microloan Fund up to \$50,000 through packaging of Participation Loans, establish an additional reserve of capital to meet demand, and to lower the interest rate and fees for the borrower.

The attached Lodi Hometown Microloan Program Budget provides an overview of the costs and estimates of fees and repayment ~~the~~ based on an assumed average interest rate of 5.0% amortized over 5 years.

1. OUR HISTORY: CAPITAL AND CAPACITY TO SERVE COMMUNITIES

California Capital FDC was founded in 1982 as a mission-based organization focused on delivering capacity building programs and access to capital, with a goal of creating asset and wealth development in low-to moderate income and underinvested communities.

For 40 years, California Capital has participated in the **Small Business Loan Guarantee Program**, through which we provide credit enhancements through The California Infrastructure and Economic Development Bank (IBank) to businesses seeking bank loans of up to \$2.5 million.

Certified by the U.S. Department of Treasury as a Community Development Financial Institution (CDFI) since 2002, California Capital has continually offered financial education, business development services, and microloan programs as a means of fostering economic development in the communities we serve.

In 2019, with the support of the Economic Development Administration (EDA), Wells Fargo, and the CDFI Fund, we established **California Capital's Lending Center**, providing microloans of up to \$50,000 and small business loans of up to \$150,000. Since 2019, The Lending Center has provided \$3,990,441 in small business loans, helping 55 businesses start and grow. Most recently, we were designated as a SBA Intermediary Microlender to provide microloans of up to \$50,000 throughout 25 counties.

Funded in part by the Small Business Administration since 2012, California Capital's **Women's Business Center** (WBC) offers continuum of entrepreneurial development programs and services based in Sacramento, Yolo, Yuba, Placer, El Dorado, and San Joaquin counties. Our WBC is closely aligned with California Capital's mission to offer a wide range of products and services to increase economic opportunities and access to capital for underserved communities and women-owned small businesses. The WBC also offers specialized programs for childcare businesses,

California Capital's APEX Accelerator (formerly known as PTAC) was established in 2014 through a cooperative agreement with the Department of Defense, and helps small businesses prepare for, pursue and perform on government contracts, providing one-on-one counseling tailored to the needs of individual businesses, training workshops and webinars from beginning to advanced level topics, and a customized Bid Match service. The APEX Accelerator serves 16 counties in Northern California.

The Sacramento Valley Small Business Development Center (SBDC) was established in 2022 and serves Sacramento, Yolo, Yuba, and Sutter counties. Part of the Northern California Network of Small Business Development Centers, the Sacramento Valley SBDC provides a wide breadth of business advising and training, and collaborates with other SBDCs to deliver effective client services.

Capacity-building is an important pillar of our community development strategy. California Capital provides a continuum of small business development services to support entrepreneurs and small business owners,

and increase access to business networks and revenue-generating opportunities. Our business development services are provided at no cost to clients through three core business development centers.

2. LOAN FINANCIAL POLICIES

City of Lodi and California Capital Loan Policies are generally consistent. Eligible activities stated in the City of Lodi agreement are eligible under California Capital's loan policies. Our maximum loan term is seven years, equity requirements are lower than City of Lodi's: 20% for start-up and 10% for existing business. Collateral and debt service requirements are consistent.

Eligible Borrowers

1. Must be a micro business; defined as a business with 10 employees or less.
2. Must have legal right to remain in the United States
3. Must be in the service area of the jurisdictional limits of the City of Lodi; Loan proceeds must be deployed in Lodi
4. Be a start-up, newly established, or growing for profit micro business concern or non-profit entity.
5. To be eligible, a business must be appropriately structured as a corporation, limited liability corporation, partnerships, sole proprietorships or non-profit organization with a business purpose.

Eligible Activities:

- Machinery/Equipment purchase
- Purchase of a business
- Inventory
- Tenant Improvements
- Life, health, safety improvements
- Soft project costs
- Working Capital
- Refinancing of business debt

Ineligible Activities:

- Refinancing of personal debt
- Land or real estate investment
- Businesses involved in gambling and in performance or products of a prurient sexual nature
- Smoke and vape shops
- Pyramid schemes
- Lines of credit

Loan Term - Up to 7.5 years, fully amortized. In general, the loan term will not exceed the average useful life of the assets being financed.

Loan Fees - Borrower will not incur any loan fees as identified in Exhibit B-Compensation.

Closing Costs - The borrower will not incur any closing costs.

Equity Requirements - 10% of project costs for existing businesses and up to 20% for start-up businesses. Costs that the business owner have incurred prior to the loan request may be considered provided the applicant can provide paid receipts or invoices.

Cash Flow Coverage - The debt service coverage ratio is 1:1 for global and business

Credit Score - No minimum credit score. However, a borrower's credit history is a key component to understanding their "willingness" to repay. It is California Capital's policy to avoid making loans to borrowers whose credit report reflects any of the following derogatory items if such items can't be reasonably explained:

- Delinquencies
- Collections
- Charge-offs
- Restructured Credits
- Short Sales
- Deed in Lieu transactions
- Foreclosures
- Liens, Garnishments or Judgments
- Litigation
- Previous Bankruptcy

Collateral - Loans will be collateralized to the maximum extent possible to ensure an adequate secondary source of repayment.

Collateralized security may include, but not be limited to, machinery and equipment, furniture and fixtures, real estate, inventory and receivables. UCC-1 will be filed with the Secretary of State to secure equipment, fixtures, furniture, receivables, inventory and other non-real estate assets. Generally, collateral pledged through UCC-1 filings shall not be pledged to other lenders or for other obligations of a business. Real estate deeds of trust will be forwarded to the County for recording.

Personal guarantee - a guarantee will be required of any principal having a twenty percent {20%} or more ownership in the company. Owners of less than 20% and personnel who hold key management positions may also be asked to guarantee the loan if deemed necessary to ensure repayment.

Insurance requirements - General Liability, Hazard Insurance, Worker's Compensation (if there are employees) shall be required.

Key Person Life Insurance will be required depending on the size and nature of the transaction.

Portfolio Diversification - California Capital loan policy is to provide financing for start-up companies. Currently, the new businesses represent 59% of the loan outstanding amount of its loan portfolio. Due to high percentage of start-ups in the portfolio, California Capital is being more "selective" with this group.

The City's high threshold of limiting any one business category to 65% of total outstanding is consistent with California Capital's policy.

3. FIXED INTEREST RATES BASED ON PRIME RATE

Loans made by the Hometown Microloan Program funds are fixed-rate loans currently identified as five percent. At such time, the Federal Open Market Committee establishes a new target range which exceeds the target range in effect on September 21, 2023, this rate will remain in effect. In the event the target range in effect on this date increases, California Capital and the City of Lodi shall mutually agree to a new fixed interest rate. California Capital is responsible for monitoring the target Federal Funds rate.

California Capital loans are fixed-rate loans based on current prime interest. Therefore, California Capital proposes using the prime interest rate with a spread plus or minus based on desired interest rate. It should be noted that the prime rate has increased 5.25% over the last two years with additional increases to be expected. Based on your objective of providing borrower a lower interest rate, a floor and ceiling would seem appropriate.

Currently, California Capital's interest rate is based on the current prime interest rate plus 5% quoted in the Wall Street Journal (Prime Rate), up to a maximum of nine and three-quarter percent (9.75%) and fixed at the time of loan approval. Based on the requirements of our loan programs, the minimum interest rate is four percent (4%) or 75% below Prime Rate, or the maximum interest rate allowed under State law, whichever is lower, but in no event shall the interest rate be less than four percent (4%).

4. 60-DAY LOAN ADMINISTRATION

In terms of underwriting, approving, and closing loans within a 60-day time period, California Capital uses a web-based on-line application portal called Lenderfit whereby borrowers upload the needed documents for each stage of the application process, from pre-qualification, application, closing and funding. Communication with the borrower regarding the status of these items is through the portal, with borrowers receiving reminders each Monday to upload the remaining items in each phase. Our Business Development Officer also calls applicants to follow up and assist when needed.

All Lodi-based applicants who are either a new, start-up business or who is not loan-ready will be referred to the San Joaquin County Small Business Development Center for one-on-one small business consulting and practical financial education, which will be a requirement for future loan approval.



The timing of the prequalification review, underwriting, and approval depends on how "loan ready" the applicant is. If the applicant is able to provide the application documents at each stage of the process, the prequalification can take place within 2 days; underwriting and approval within 2-3 weeks and closing and funding within 2-3 weeks (no more than 60 days). Total processing time is typically 35-45 days. Again, this timing depends on how "loan ready" the business is.

Loan Processing and Payments

The following policies and procedures will be followed to process financial transactions for the Lodi Hometown Microloan Fund and California Capital's Leveraged Capital Fund as subject to this agreement.

Lodi Hometown Microloan Fund

Disbursement: The City of Lodi will disburse the principal loan amount for each loan individually to California Capital within 30 days of the approval of a loan. Loan disbursements will be made by California Capital to the individual borrower no more than 30 days from receipt of the principal loan amount from City of Lodi.

Loan Fees: The City of Lodi will pay all loan fees associated with loans approved each month, based on the loan fee schedule in the Exhibit B, as a one-time payment within 30 days of an approved invoice submitted by California Capital. All fees are non-refundable.

Loan Repayments: Repayments of principal and interest will be deposited in California Capital's Business account in Comerica Bank once received on ACH pulls from borrower's accounts.

Revolving Loan Fund: Borrower principal and interest repayments to the Lodi Hometown Microloan Fund will be paid to California Capital; California Capital will issue payment for all principal and interest payments received from borrowers to the City of Lodi's Revolving Loan Fund account on a monthly basis.

Late Fees: Late fees on all borrower repayments will reside with California Capital.

Non-repayment: The City of Lodi will assume all risk of loss on all loans made through the Lodi Hometown Microloan Fund.

California Capital's Leveraged Capital Fund

Disbursement: When a loan is approved, California Capital will deploy the funds within 30 days of the approval.

Loan Fees: The City of Lodi will pay all loan fees associated with loans approved each month, based on the loan fee schedule in the Exhibit B, as a one-time payment within 30 days of an approved invoice submitted by California Capital. All fees are non-refundable.

Interest Buy-Down Payments: Interest Buy-down payments will only be paid on Leveraged Capital Loans. The City of Lodi will pay the entire Interest Buy-Down as a one-time payment for each loan within 30 days of an approved invoice. California Capital will apply interest buy-down repayments from these funds to the loan with each borrower repayment. If a loan defaults, the remaining interest buy-down payments will be reimbursed to the City of Lodi.

Loan Repayments: Repayments of principal and interest will be deposited in California Capital's Business account in Comerica Bank once received on ACH pulls from borrower's accounts. California Capital will concurrently run amortization schedules on closed loans for both 5% (borrower's rate) and California Capital's rate (9.75%) to assess the prepaid interest buy-down. If a loan is defaulted, the remaining interest buy-down amount will be reimbursed to the City of Lodi.

Late Fees: Late fees on all borrower repayments will reside with California Capital.

Non-repayment: California Capital will assume the risk of loss on all loans made through California Capital's Leveraged Capital Fund.

Monthly Invoicing: Monthly invoices will be submitted by California Capital to the City of Lodi within 30 days of the end of each month. Invoices will include charges for all Loan Fees and Interest Buydown payments associated with all loans approved during the month.

Reporting: California Capital will provide a monthly report accompanying invoices. The report will include:

- All loans approved and disbursed within the month being reported
- Current status of all loans including repayment history and outstanding principal and interest
- List of outreach activities conducted to promote the program
- List of TA referrals made to the San Joaquin SBDC. Total TA provided by California Capital per loan, i.e., post-loan TA appointments.

5. CLIENT-FOCUSED SERVICES

At California Capital, our business advising, training, and lending services are built around the client experience. Recognizing each business as unique, we conduct intake and technical assistance assessments with every new client and borrower.

Applicants who are seeking financing start by registering on our website for assistance. Within 24 hours, our Business Development Officer contacts the applicant to assess their financing needs. If the client is not ready for financing, they are referred to appropriate resources. Applicants who meet basic criteria are then invited to our on-line web-based application portal, called Lenderfit.

The Loan application process is divided into four stages: Prequalification, Application, Closing and Funding. Each stage has a checklist of documents the applicant must complete or upload. Communication regarding these items is handled through Lenderfit, which the applicant can easily access via computer and their mobile phone. We have used the portal for two years and it has become an extremely efficient and

user-friendly tool to receive application documents, process loan requests and communicate with our borrowers.

In our experience, many small business owners are not "loan ready" in terms of having their tax returns prepared and filed or financial statements prepared, whether year-end or year-to-date. Some need help with projections while others have had credit issues that need to be resolved.

In these cases, our Business Development Officer will connect the applicant with a business advisor. However, this assistance can often take several weeks to a month to provide, depending on the borrower's responsiveness. We have found that the extent to which we can connect a borrower with a business advisor to assist with these matters, the more likely the borrower will qualify for and receive a loan.

6. LOAN UNDERWRITING

All loan applications involve a review of business and personal tax returns, interim financial statements and/or cash flow projections in order to assess repayment ability, both from the business on its own and on a global basis. Loans are structured to meet the customer's needs but terms will have to meet the risk and lending policy framework.

California Capital is a member of the Risk Management Association (RMA) and uses data from the RMA web-based portal to research a particular industry and its trends. With this data, we compare balance sheet ratios of the business to those in the industry to assess the viability and financial health of the business applicant.

Each loan review involves a site visit by our Director of Lending and Business Development Officer prior to the issuance of a Letter of Interest, and then, by our Credit Administrator during the underwriting stage and prior to presenting the loan to our Loan Approval Committee/Board.

All loans are risk rated at the time of application (and again on an annual basis) to assess overall risk relating to six criteria: repayment ability, industry experience, credit, collateral support, guarantor support and availability of working capital.

California Capital's existing service delivery includes the Racial Equity Lens (REL) underwriting criteria and adopts an asset-framing approach, looking at additional factors that indicate a willingness and ability to repay outside of traditional underwriting criteria. In the calendar year 2022 we created our first loan loss reserve fund to ensure lending to underserved and underbanked communities with adverse credit risk.

Our current underwriting criteria reflects the key elements of a Racial Equity Lens (REL) underwriting criteria: Commitment, Character, Conditions, and Capacity. Our practices include: Pre- and post-funding technical assistance with vetted business advisors, who come from a diverse background and diverse business ownership experiences to offer culturally relevant coaching and empowerment; A holistic approach to credit evaluation that also includes a focus on credit reporting as opposed to credit scores

used by banks; "Asset Framing," looking at strengths, not only weaknesses of borrower; attending ongoing meetings with business advisors, including check-ins for financial statements; family/peer testimonials; flexible repayment structures to ensure the sustainability of the loan alongside technical assistance sessions or relationship building meeting at least once per quarter; and measuring the capacity of the business via historical business and personal tax returns (up to 3 years)), financial statements and projections (if available)), and/ or monthly bank statements. Through the wrap-around continuum of business development resources, many of our borrowers have received pre-loan technical assistance, training, business counseling, connection to market opportunities, and post-loan follow-ups. With our current Racial Equity Lens underwriting criteria, we want to expand opportunity and innovative capacity for SEDI small business owners in, and be a hub for entrepreneurship and economic growth and development planning.

7. LOAN APPROVALS AND RISK RATING

Loans are approved upon completion of a Credit Memorandum. Loans up to \$25,000 are approved by the Director of Lending. Loans between \$25,001 and \$50,000 are approved by the Chief Executive Officer (CEO) and Chief Financial Officer (CFO). Loans over \$50,000 are approved by the Loan Approval Board (LAB). The LAB meets as needed and a meeting is typically scheduled within the week that the Credit Memorandum is complete. All loans recommended for funding by California Capital must be submitted to the City of Lodi Economic Development Department for review prior to final loan approval.



Our current risk rating is on a 1–4 range, with above 3 indicating high default risk. This score is based on industry experience, credit score, collateral support, working capital, and guarantor support. Despite weaknesses, mitigating circumstances such as adequate global cash flow and/or liquidity exist to an extent where ongoing repayment ability is likely. These credits are then reviewed more regularly to determine if identified weaknesses/risks are improving or further deteriorating and provide outreach and technical service as needed.

Technical Assistance is offered to applicants who score a 3 or above, with prescribed interventions and best practices to improve upon client metrics used in our risk assessment. This helps clients take corrective measures to qualify for loans in the future. The Racial Equity Lens is another tool we use to underwrite high default risk for clients through non-traditional repayment ability and credit assessment.

During our underwriting, our Credit Analyst risk rates each loan using a risk rating matrix. The matrix uses the following attributes, which are each weighted:

- Repayment Ability
- Industry Experience
- Working Capital Levels
- Credit issues/FICO Score
- Collateral Support
- Guarantor Support

As a Financial Development Corporation (FDC), we are able to partner with other FDCs to guarantee direct loans. Using this practice expedites capital infusion and improves the efficiency of our ability to service the loan. Applied strategically, this will allow California Capital to revolve loans more quickly and grow the loan fund to impact more businesses.

Risk rating reoccurs annually after the receipt of a borrower's financials. Loans with risk rating above 3 are placed on a Watch List. Loans on the watchlist are subject to monthly financial statement requirements and more comprehensive technical assistance requirements.

8. LOAN CLOSING AND DOCUMENTATION

Once a loan has been approved, California Capital's Loan Closing Coordinator (LCC) collects the documents needed for closing through the Lenderfit portal and prepares loan documents. The LCC collects evidence of insurance, ACH payment information, invoices and receipts as needed, and/or vehicle registration information (i.e., in the case of a truck purchase). Once loan documents are prepared, the LCC forwards them to the borrower for review and sets up a closing date whereby the LCC and Business Development Officer meet with the borrower to review the loan documents and answer questions. Once the documents are signed, the LCC processes the loan disbursements and forwards them to our Chief Financial Officer for approval. Depending on the use of proceeds (whether funds are disbursed to a third party vendor or to the borrower) funding takes place within 2-5 days after closing. Projects involving tenant improvements might take longer to fund since disbursements are made in stages as the work is completed.

9. LOAN SERVICING AND MONITORING

California Capital has a full-time Loan Portfolio Manager (LPM) whose focus is overseeing loan payments, collecting financials and insurance certificates on an annual basis and managing requests for deferments or change in payment amounts, if needed. The LPM uses DownHome, a web-based portal to record payments and service our loans. Loan statements are generated by DownHome monthly and emailed to borrowers. Our LPM also handles all defaults when they occur, contacting borrowers to find out the reason for a non-payment and to work with them to assess whether business advising services are needed to assist with the issues causing the default.

We require all start-up businesses owners and particular borrowers who score at a 3 or higher to receive individualized post-loan technical assistance from our Women's Business Center, Small Business Development Centers or SCORE.

10. KEY STAFF AND LOAN APPROVALS

Loans of \$50,000 and under, once approved by underwriting, are approved internally by the Director of Lending and CEO, creating a streamlined process for loan approvals.

Key Staff

- Robert Gonzales is our Director of Lending, with extensive experience in Banking, Leadership, SBA Lending, and the CDC/ CDFI Industry. Mr. Gonzales has a proven track record of excellence in management, corporate strategy, underwriting, and loan production.
- Brian Zscheile serves as our Business Development Officer, identifying potential borrowers, connecting them with business advisors, and assisting with the loan application process. Mr. Zscheile brings over 25 years of experience in lending, client relationship management, and business advising.
- Sunita Maharaj - Loan Portfolio Manager, has over 20 years of underwriting and SBA Loan experience. Sunita formerly served as the Director of NorCal SBDC Finance Center, and in addition to underwriting provides loan readiness training and assesses borrower needs for post loan TA.
- Deborah Lowe Muramoto, President/ CEO, provides oversight and strategic direction for the Director of Lending and California Capital's Loan Funds. Mrs. Muramoto has worked for California Capital for 33 years, leading with innovation to expand services in the scope of California Capital's mission.
- May Masunaga, Chief Financial Officer, is a Certified Public Accountant and is responsible for administering California Capital's Loan Funds
- Mike Schremmer, Chief Operations Officer, is responsible for grant administration, reporting, and data systems administration.

11. CALIFORNIA CAPITAL LOAN FUNDS

Please see the [Lending Program Matrix](#) attachment for details on our individual loan products.

12. TECHNICAL ASSISTANCE SERVICES

We are committed to driving continuous improvements to make our loan products more accessible, build the creditworthiness of borrowers, and increase our client's capacity to succeed. Through our programs and referrals to partner organizations, many of our borrowers will receive individualized technical assistance, training, business counseling, and connection to market opportunities.

Technical Assistance will be provided through California Capital's Lending Center, Women's Business Center, and through referral to the San Joaquin SBDC. A detailed description of our programs has been provided in Section 1 of this proposal.

This continuum of business development services extends to requirements for borrowers to receive post loan technical assistance, mitigating risk and enabling us to lend to borrowers who may be excluded through traditional institutional channels.

13. HOMETOWN MICROLOAN PROGRAM MARKETING PLAN

California Capital will perform a comprehensive, targeted marketing strategy for the City of Lodi Revolving Loan fund. This will be accomplished by:

- o Utilize California Capital's marketing department to develop digital and social marketing and print collateral to educate and promote the City of Lodi Hometown Loan Program.
- o Provide outreach, assistance and marketing/sales to the local banking community with emphasis on Bank of Stockton, Farmers & Merchants Bank, and Valley Strong.
- o Providing and participating in Access to Capital functions. Invite the San Joaquin SBDC to co-host a Capital Summit in Lodi, an event we have held in the past with our neighboring SBDCs.
- o Work closely with local SBDC, Women's Business, and the Chamber to establish a strong partnership and create referrals both ways.
- o Feet on the Street - Our ~~BOEBDO~~, Brian Zscheile, will reach out to and visit businesses to create awareness for the Lodi small business community.
- o California Capital will take part in local business events and promote the program.
- o Establish a relationship with Navy Federal Credit Union to assist their veteran business members for financing

Approved as to Form:

KATIE O. LUCCHESI
City Attorney

