

AMENDMENT NO. 1  
CALIFORNIA CAPITAL FINANCIAL DEVELOPMENT CORPORATION  
AGREEMENT FOR PROFESSIONAL SERVICES

THIS AMENDMENT NO. 1 TO AGREEMENT FOR PROFESSIONAL SERVICES ("Amendment No. 1"), is made and entered this \_\_\_\_\_ day of \_\_\_\_\_, 2024, by and between the CITY OF LODI, a municipal corporation (hereinafter "CITY"), and CALIFORNIA CAPITAL FINANCIAL DEVELOPMENT CORPORATION, a California Public Benefit nonprofit corporation (hereinafter "CONTRACTOR").

WITNESSETH:

1. WHEREAS, CONTRACTOR and CITY entered into an AGREEMENT FOR PROFESSIONAL SERVICES for the provision of turnkey underwriting and administration of the Hometown Microloan Program on November 29, 2023 ("Agreement"), as set forth in Exhibit 1, attached hereto and made part of; and

2. WHEREAS, CITY requests to amend the Agreement term to November 30, 2028, with an option to extend the Agreement an additional two years upon approval of both parties, to provide additional time to perform marketing, underwriting and administration of the CITY's Hometown Microloan Program; and

3. WHEREAS, CITY desires to replace Exhibit A of the Agreement to make minor modifications to the Hometown Microloan Program guidelines to provide additional clarification on eligibility and terms and replace with those shown in Exhibit 2; and

4. WHEREAS, CONTRACTOR agrees to said amendments.

NOW, THEREFORE, the parties agree to amend the Agreement as set forth above. All other terms and conditions of the Agreement remain unchanged.

IN WITNESS WHEREOF, CITY and CONTRACTOR have executed this Amendment No. 1 on the date and year first above written.

CITY OF LODI, a municipal corporation

CALIFORNIA CAPITAL FINANCIAL  
DEVELOPMENT CORPORATION, a  
California Public Benefit nonprofit  
corporation

\_\_\_\_\_  
SCOTT R. CARNEY  
City Manager

\_\_\_\_\_  
DEBBIE MURAMOTO  
President/CEO

Attest:

Approved as to form:

\_\_\_\_\_  
OLIVIA NASHED, City Clerk

\_\_\_\_\_  
KATIE O. LUCCHESI, City Attorney

**AGREEMENT FOR PROFESSIONAL SERVICES**

**ARTICLE 1**  
**PARTIES AND PURPOSE**

**Section 1.1 Parties**

THIS AGREEMENT is entered into on November 29 2023, by and between the CITY OF LODI, a municipal corporation (hereinafter "CITY"), and California Capital Small Business Financial Development Corporation, a California Public Benefit nonprofit corporation, DBA California Capital Financial Development Corporation (hereinafter "CONTRACTOR").

**Section 1.2 Purpose**

CITY selected the CONTRACTOR to provide the services required in accordance with attached Scope of Services, Exhibit A, attached and incorporated by this reference.

CITY wishes to enter into an agreement with CONTRACTOR for the provision of turnkey underwriting and administration of the Hometown Microloan Program (hereinafter "Project") as set forth in the Scope of Services attached here as Exhibit A. CONTRACTOR acknowledges that it is qualified to provide such services to CITY.

**ARTICLE 2**  
**SCOPE OF SERVICES**

**Section 2.1 Scope of Services**

CONTRACTOR, for the benefit and at the direction of CITY, shall perform the Scope of Services as set forth in Exhibit A.

**Section 2.2 Time For Commencement and Completion of Work**

CONTRACTOR shall commence work pursuant to this Agreement, upon receipt of a written notice to proceed from CITY or on the date set forth in Section 2.6, whichever occurs first, and shall perform all services diligently and complete work under this Agreement based on a mutually agreed upon timeline or as otherwise designated in the Scope of Services.

CONTRACTOR shall submit to CITY such reports, diagrams, drawings and other work products as may be designated in the Scope of Services.

CONTRACTOR shall not be responsible for delays caused by the failure of CITY staff to provide required data or review documents within the appropriate time frames. The review time by CITY and any other agencies involved in the project shall not be

counted against CONTRACTOR's contract performance period. Also, any delays due to weather, vandalism, acts of God, etc., shall not be counted. CONTRACTOR shall remain in contact with reviewing agencies and make all efforts to review and return all comments.

**Section 2.3 Meetings**

CONTRACTOR shall attend meetings as may be set forth in the Scope of Services.

**Section 2.4 Staffing**

CONTRACTOR acknowledges that CITY has relied on CONTRACTOR's capabilities and on the qualifications of CONTRACTOR's principals and staff as identified in its proposal to CITY. The Scope of Services shall be performed by CONTRACTOR, unless agreed to otherwise by CITY in writing. CITY shall be notified by CONTRACTOR of any change of Project Manager and CITY is granted the right of approval of all original, additional and replacement personnel at CITY's sole discretion and shall be notified by CONTRACTOR of any changes of CONTRACTOR's project staff prior to any change.

CONTRACTOR represents it is prepared to and can perform all services within the Scope of Services (Exhibit A) and is prepared to and can perform all services specified therein. CONTRACTOR represents that it has, or will have at the time this Agreement is executed, all licenses, permits, qualifications, insurance and approvals of whatsoever nature are legally required for CONTRACTOR to practice its profession, and that CONTRACTOR shall, at its own cost and expense, keep in effect during the life of this Agreement all such licenses, permits, qualifications, insurance and approvals, and shall indemnify, defend and hold harmless CITY against any costs associated with such licenses, permits, qualifications, insurance and approvals which may be imposed against CITY under this Agreement.

**Section 2.5 Subcontracts**

Unless prior written approval of CITY is obtained, CONTRACTOR shall not enter into any subcontract with any other party for purposes of providing any work or services covered by this Agreement.

**Section 2.6 Term**

The term of this Agreement commences on December 1, 2023 and terminates upon the completion of the Scope of Services or on November 30, 2024, whichever occurs first.

## **ARTICLE 3** **COMPENSATION**

### **Section 3.1 Compensation**

CONTRACTOR's compensation for all work under this Agreement shall conform to the provisions of the Fee Proposal, attached hereto as Exhibit B and incorporated by this reference.

CONTRACTOR shall not undertake any work beyond the scope of this Agreement unless such additional work is approved in advance and in writing by CITY.

### **Section 3.2 Method of Payment**

CONTRACTOR shall submit invoices for completed work on a monthly basis, or as otherwise agreed, providing, without limitation, details as to amount of hours, individual performing said work, hourly rate, and indicating to what aspect of the Scope of Services said work is attributable. CONTRACTOR's compensation for all work under this Agreement shall not exceed the amount of the Fee Proposal.

### **Section 3.3 Costs**

The Fee Proposal shall include all reimbursable costs required for the performance of the Scope of Services. Payment of additional reimbursable costs considered to be over and above those inherent in the original Scope of Services shall be approved in advanced and in writing, by CITY.

### **Section 3.4 Auditing**

CITY reserves the right to periodically audit all charges made by CONTRACTOR to CITY for services under this Agreement. Upon request, CONTRACTOR agrees to furnish CITY, or a designated representative, with necessary information and assistance needed to conduct such an audit.

CONTRACTOR agrees that CITY or its delegate will have the right to review, obtain and copy all records pertaining to performance of this Agreement. CONTRACTOR agrees to provide CITY or its delegate with any relevant information requested and shall permit CITY or its delegate access to its premises, upon reasonable notice, during normal business hours for the purpose of interviewing employees and inspecting and copying such books, records, accounts, and other material that may be relevant to a matter under investigation for the purpose of determining compliance with this requirement. CONTRACTOR further agrees to maintain such records for a period of three (3) years after final payment under this Agreement.

**ARTICLE 4**  
**MISCELLANEOUS PROVISIONS**

**Section 4.1 Nondiscrimination**

In performing services under this Agreement, CONTRACTOR shall not discriminate in the employment of its employees or in the engagement of any sub CONTRACTOR on the basis of race, color, religion, sex, sexual orientation, marital status, national origin, ancestry age, or any other criteria prohibited by law.

**Section 4.2 ADA Compliance**

In performing services under this Agreement, CONTRACTOR shall comply with the Americans with Disabilities Act (ADA) of 1990, and all amendments thereto, as well as all applicable regulations and guidelines issued pursuant to the ADA.

**Section 4.3 Indemnification and Responsibility for Damage**

CONTRACTOR to the fullest extent permitted by law, shall indemnify and hold harmless CITY, its elected and appointed officials, directors, officers, employees and volunteers from and against any claims, damages, losses, and expenses (including reasonable attorney's fees and costs), arising out of performance of the services to be performed under this Agreement, provided that any such claim, damage, loss, or expense is caused by the negligent acts, errors or omissions of CONTRACTOR, any subcontractor employed directly by CONTRACTOR, anyone directly or indirectly employed by any of them, or anyone for whose acts they may be liable, except those injuries or damages arising out of the active negligence, sole negligence, or sole willful misconduct of the City of Lodi, its elected and appointed officials, directors, officers, employees and volunteers. CITY may, at its election, conduct the defense or participate in the defense of any claim related in any way to this indemnification. If CITY chooses at its own election to conduct its own defense, participate in its own defense, or obtain independent legal counsel in defense of any claim related to this indemnification, CONTRACTOR shall pay all of the costs related thereto, including without limitation reasonable attorney fees and costs. The defense and indemnification obligations required by this Agreement are undertaken in addition to, and shall not in any way be limited by the insurance obligations set forth herein.

**Section 4.4 No Personal Liability**

Neither the City Council, nor any other officer or authorized assistant or agent or City employee shall be personally responsible for any liability arising under this Agreement.

**Section 4.5 Responsibility of CITY**

CITY shall not be held responsible for the care or protection of any material or parts of the work described in the Scope of Services prior to final acceptance by CITY, except as expressly provided herein.

**Section 4.6 Insurance Requirements for CONTRACTOR**

CONTRACTOR shall take out and maintain during the life of this Agreement, insurance coverage as set forth in Exhibit C attached hereto and incorporated by this reference.

**Section 4.7 Successors and Assigns**

CITY and CONTRACTOR each bind themselves, their partners, successors, assigns, and legal representatives to this Agreement without the written consent of the others. CONTRACTOR shall not assign or transfer any interest in this Agreement without the prior written consent of CITY. Consent to any such transfer shall be at the sole discretion of CITY.

**Section 4.8 Notices**

Any notice required to be given by the terms of this Agreement shall be in writing signed by an authorized representative of the sender and shall be deemed to have been given when the same is personally served or upon receipt by express or overnight delivery, postage prepaid, or three (3) days from the time of mailing if sent by first class or certified mail, postage prepaid, addressed to the respective parties as follows:

To CITY: City of Lodi  
221 West Pine Street  
P.O. Box 3006  
Lodi, CA 95241-1910  
Attn: Business Development Manager

To CONTRACTOR: California Capital Financial Development Corporation  
1792 Tribute Road  
Suite 270  
Sacramento, CA 95815

**Section 4.9 Cooperation of CITY**

CITY shall cooperate fully and in a timely manner in providing relevant information it has at its disposal relevant to the Scope of Services.

**Section 4.10 CONTRACTOR is Not an Employee of CITY**

CONTRACTOR agrees that in undertaking the duties to be performed under this Agreement, it shall act as an independent contractor for and on behalf of CITY and not an employee of CITY. CITY shall not direct the work and means for accomplishment of

the services and work to be performed hereunder. CITY, however, retains the right to require that work performed by CONTRACTOR meet specific standards without regard to the manner and means of accomplishment thereof.

**Section 4.11 Termination**

CITY may terminate this Agreement, with or without cause, by giving CONTRACTOR at least ten (10) days written notice. Where phases are anticipated within the Scope of Services, at which an intermediate decision is required concerning whether to proceed further, CITY may terminate at the conclusion of any such phase. Upon termination, CONTRACTOR shall be entitled to payment as set forth in the attached Exhibit B to the extent that the work has been performed. Upon termination, CONTRACTOR shall immediately suspend all work on the Project and deliver any documents or work in progress to CITY. However, CITY shall assume no liability for costs, expenses or lost profits resulting from services not completed or for contracts entered into by CONTRACTOR with third parties in reliance upon this Agreement.

**Section 4.12 Confidentiality**

CONTRACTOR agrees to maintain confidentiality of all work and work products produced under this Agreement, except to the extent otherwise required by law or permitted in writing by CITY. CITY agrees to maintain confidentiality of any documents owned by CONTRACTOR and clearly marked by CONTRACTOR as "Confidential" or "Proprietary", except to the extent otherwise required by law or permitted in writing by CONTRACTOR. CONTRACTOR acknowledges that CITY is subject to the California Public Records Act.

**Section 4.13 Applicable Law, Jurisdiction, Severability, and Attorney's Fees**

This Agreement shall be governed by the laws of the State of California. Jurisdiction of litigation arising from this Agreement shall be venued with the San Joaquin County Superior Court. If any part of this Agreement is found to conflict with applicable laws, such part shall be inoperative, null, and void insofar as it is in conflict with said laws, but the remainder of this Agreement shall be in force and effect. In the event any dispute between the parties arises under or regarding this Agreement, the prevailing party in any litigation of the dispute shall be entitled to reasonable attorney's fees from the party who does not prevail as determined by the San Joaquin County Superior Court.

**Section 4.14 City Business License Requirement**

CONTRACTOR acknowledges that Lodi Municipal Code Section 3.01.020 requires CONTRACTOR to have a city business license and CONTRACTOR agrees to secure such license and pay the appropriate fees prior to performing any work hereunder.

**Section 4.15 Captions**

The captions of the sections and subsections of this Agreement are for convenience only and shall not be deemed to be relevant in resolving any question or interpretation or intent hereunder.

**Section 4.16 Integration and Modification**

This Agreement represents the entire understanding of CITY and CONTRACTOR as to those matters contained herein. No prior oral or written understanding shall be of any force or effect with respect to those matters covered hereunder. This Agreement may not be modified or altered except in writing, signed by both parties.

**Section 4.17 Contract Terms Prevail**

All exhibits and this Agreement are intended to be construed as a single document. Should any inconsistency occur between the specific terms of this Agreement and the attached exhibits, the terms of this Agreement shall prevail.

**Section 4.18 Severability**

The invalidity in whole or in part of any provision of this Agreement shall not void or affect the validity of any other provision of this Agreement.

**Section 4.19 Ownership of Documents**

All documents, photographs, reports, analyses, audits, computer media, or other material documents or data, and working papers, whether or not in final form, which have been obtained or prepared under this Agreement, shall be deemed the property of CITY. Upon CITY's request, CONTRACTOR shall allow CITY to inspect all such documents during CONTRACTOR's regular business hours. Upon termination or completion of services under this Agreement, all information collected, work product and documents shall be delivered by CONTRACTOR to CITY within ten (10) calendar days.

CITY agrees to indemnify, defend and hold CONTRACTOR harmless from any liability resulting from CITY's use of such documents for any purpose other than the purpose for which they were intended.



**Section 4.20 Authority**

The undersigned hereby represent and warrant that they are authorized by the parties to execute this Agreement.

**Section 4.21 Federal Transit Funding Conditions**

If the box at left is checked, the Federal Transit Funding conditions attached as Exhibit D apply to this Agreement. In the event of a conflict between the terms of this Agreement or any of its other exhibits, and the Federal Transit Funding Conditions, the Federal Transit Funding Conditions will control.

**Section 4.22 Counterparts and Electronic Signatures**

This Agreement and other documents to be delivered pursuant to this Agreement may be executed in one or more counterparts, each of which will be deemed to be an original copy and all of which, when taken together, will be deemed to constitute one and the same agreement or document, and will be effective when counterparts have been signed by each of the parties and delivered to the other parties. Each party agrees that the electronic signatures, whether digital or encrypted, of the parties included in this Agreement are intended to authenticate this writing and to have the same force and effect as manual signatures. Delivery of a copy of this Agreement or any other document contemplated hereby, bearing an original manual or electronic signature by facsimile transmission (including a facsimile delivered via the Internet), by electronic mail in "portable document format" (.pdf) or similar format intended to preserve the original graphic and pictorial appearance of a document, or through the use of electronic signature software will have the same effect as physical delivery of the paper document bearing an original signature.

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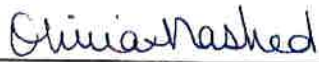
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IN WITNESS WHEREOF, CITY and CONTRACTOR have executed this Agreement as of the date first above written.

ATTEST:

CITY OF LODI, a municipal corporation

  
\_\_\_\_\_  
OLIVIA NASHED  
City Clerk

  
\_\_\_\_\_  
ANDREW C. KEYS  
Interim City Manager

APPROVED AS TO FORM:  
KATIE O. LUCCHESI, City Attorney

California Capital Small Business Financial  
Development Corporation, a California  
Public Benefit nonprofit corporation, DBA  
California Capital Financial Development  
Corporation

By:   
\_\_\_\_\_

By:   
\_\_\_\_\_  
Name: Debbie Muramoto  
Title: President/CEO

**Attachments:**  
**Exhibit A – Scope of Services**  
**Exhibit B – Fee Proposal**  
**Exhibit C – Insurance Requirements**  
**Exhibit D – Federal Transit Funding Conditions (if applicable)**

**Funding Source: 36510102.75C28**  
**(Business Unit & Account No.)**

Doc ID:

CA: Rev.10.2023-CA

## EXHIBIT A



### THE CITY OF LODI HOMETOWN MICROLOAN PROGRAM

#### EXECUTIVE SUMMARY

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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 use 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.



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

## 1. OUR HISTORY: CAPITAL AND CAPACITY TO SERVE COMMUNITIES

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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 a 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,



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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

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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
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

### 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 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.



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**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.



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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

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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

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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 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

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.



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## Loan Processing and Payments

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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.





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**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**

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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 are handled through Lenderfit, which the applicant can easily access via computer or their mobile phone. We have used the portal for two years and it has become an extremely efficient and



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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

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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



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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.

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



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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

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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

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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.



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### 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

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

### 12. TECHNICAL ASSISTANCE SERVICES

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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.



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### 13. HOMETOWN MICROLOAN PROGRAM MARKETING PLAN

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

- 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.
- Provide outreach, assistance and marketing/sales to the local banking community with emphasis on Bank of Stockton, Farmers & Merchants Bank, and Valley Strong.
- 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.
- Work closely with local SBDC, Women's Business, and the Chamber to establish a strong partnership and create referrals both ways.
- Feet on the Street - Our BDO, Brian Zscheile, will reach out to and visit businesses to create awareness for the Lodi small business community.
- California Capital will take part in local business events and promote the program.
- Establish a relationship with Navy Federal Credit Union to assist their veteran business members for financing



**California Capital**  
*Financial Development Corporation*

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## DIRECT LENDING POLICY

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*California Capital Financial Development Corporation  
1792 Tribute Road, Suite 270 | Sacramento, CA 95815  
(916) 442-1729*

[www.cacapital.org](http://www.cacapital.org)

*Adopted: December 1, 2020  
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## **POLICY STATEMENT**

It is the policy of California Capital to grant credit in a way that complies with all applicable laws and regulations, the principles of sound risk management, and California Capital's mission of providing creative financing solutions to underserved small businesses throughout our lending footprint. California Capital only makes loans to borrowers whose credit history and financial capacity demonstrate the willingness and ability to repay.

Direct lending activities are critical to the success of California Capital as a mission-based non-profit. The purpose of this policy is to define the operating philosophy, standards and responsibilities governing California Capital's direct lending activities. Together with California Capital's credit procedures and guidelines, this policy serves as a framework and guide for the organization's lending personnel.

This Policy will be reviewed by management and the Loan Approval Board and approved by the Board of Directors at least annually in order to ensure that California Capital's lending activities reflect both the organization's strategic plan as well as ever-changing industry best practices.

California Capital evaluates the needs of the communities in its lending footprint and develops credit products and processes to address those needs. This includes products with flexible underwriting standards, credit applications and approval processes aimed at satisfying identified needs while preserving the safety and soundness of California Capital's operations. All extensions of credit and other activities that include credit risk must comply with all applicable government regulations, fair lending guidelines, and this Policy.

California Capital will obtain and analyze sufficient information to ensure that a loan purpose is lawful and that the borrower is willing and able to repay as promised. Credit will be structured consistent with supporting analysis and will be monitored as appropriate for adverse changes in borrower circumstances. When repayment is threatened, California Capital will take prompt action to protect its interests.

This Policy does not cover California Capital's indirect lending activities where California Capital facilitates the making of loans not carried on its books. Indirect lending activities include, but are not limited to, loans made through the Small Business Loan Guarantee Program, Disaster Relief Loan Guarantee Program, Jump Start Loan Program and RUST Loan Program. For policies relating to indirect lending activities, please refer to program documents published by each indirect lending program's sponsor/lender.

## **AUTHORITIES & RESPONSIBILITIES**

### **Management Responsibilities**

The **President/Chief Executive Officer ('CEO')** is responsible for managing the organization and overseeing its direct lending loan portfolio. The CEO accomplishes this

through delegation of responsibilities as appropriate and direct involvement in the Loan Administration Board as required.

The **Chief Financial Officer (“CFO”)**, although not a regular participant in direct lending activities, is responsible for ensuring that the organization’s loan portfolio is accurately accounted for in accordance with GAAP. The CFO is also responsible for ensuring the adequacy of the organization’s reserve for loan losses.

The **Director of Lending (DOL)** is responsible for the implementation of this Direct Lending Policy and the management, review, tracking, reporting and direct oversight of the organization’s direct lending portfolio. The DOL will ensure that procedures are developed and implemented which allow for the prudent management of credit. The DOL is also charged with developing new credit products and services which support the credit needs of California Capital’s customer base while ensuring the safety and soundness of the organization.

The **Operations Director (‘OD’)** is responsible for ensuring that California Capital meets all current regulatory requirements. The OD is to remain current on all regulatory requirements and to inform management when there are significant changes requiring a change in policy or procedures. In addition, the OD is to aid the DOL in developing new products or modifying old products within current regulatory rules and guidelines.

### **Board of Directors Responsibilities**

The **Board of Directors (‘Board’)** is responsible for:

- Appointing the President/CEO
- Adopting and annually approving this Direct Lending Policy
- Ensuring that the CEO and executive management team has the requisite experience and ability to manage the organization’s direct lending portfolio in accordance with applicable regulatory agency requirements and the principals of safe and sound lending practices

### **Loan Administration Board Responsibilities**

The **Loan Administration Board (‘LAB’)** is responsible for:

- Recommending the Direct Lending Policy for approval
- Approving Direct Lending Underwriting Guidelines
- Reporting to the Board on the organization’s current lending activities and condition of the loan portfolio
- Approving loans above the credit limit authorized by the Board for the CEO/President, CFO, and DOL
- Holding regular meetings as needed
- Advising and recommending legal remedies for loans in default
- Reviewing overall loan portfolio performance, including:
  - Review of monthly loan status reports

- Review of miscellaneous reports that may be periodically requested by Staff

The LAB shall be comprised of a maximum of eight members. The composition of the LAB shall be as follows:

- Up to three Commercial Bankers or Commercial Lending representatives
- California Capital President or his/her designee
- One Attorney with business experience or practice
- One Accountant or C.P.A.
- A maximum of two representatives from the local business community, who may also be either the attorney or accountant representative
- A majority of the LAB members shall constitute a quorum; and
- Board members are recruited from the Service Area community to serve for two years prior to the renewal of the membership

### **Loan Officer/Underwriter Responsibilities**

**Loan Officers/Underwriters** are responsible for analyzing a credit request, preparing the appropriate underwriting memo, ensuring the appropriate information is available and, in the file, to determine and support the credit worthiness of the applicant, and make appropriate loan decisions or recommendations. Loan Officers/Underwriters ensure files are complete and in accordance with California Capital's underwriting and compliance standards and that the borrower has the ability and willingness to repay. They are tasked with suggesting appropriate loan structure(s) and ensuring that, when required, collateral appraisals or evaluations have been received and reviewed and support the credit as approved.

Once credit is approved, credit underwriters are responsible, with help from the Loan Closing Coordinator, to ensure that the appropriate loan documents are prepared and reviewed in a timely manner and that they reflect all requirements of the loan approval.

Once necessary signatures are obtained, the underwriter should ensure that the loan is successfully boarded onto the loan system.

Once a loan is booked, the credit underwriter is responsible for monitoring the credit for continued credit quality and timely reviews and renewals within California Capital's servicing guidelines. Any signs of credit deterioration must be promptly discussed with the DOL.

### **Loan Processing Coordinator Responsibilities**

The Loan Processing Coordinator ('LPC') is responsible for performing all administrative functions related to originating loans. Tasks include collecting application, financial and organizational documents from borrowers, entering borrower and financial data to the loan origination software package (Ventures+), reviewing all documents for

completeness and accuracy; analyzing credit obligations, debt, financial statements and projections; and providing Credit Underwriter with list of questions and synopsis of loan.

### **Loan Closing Coordinator Responsibilities**

The **Loan Closing Coordinator ('LCC')** is responsible for accurately documenting all approved loans. This includes not only developing and implementing standard loan documentation but also updating standard documentation as appropriate and maintaining it within California Capital's Policy, regulatory requirements and lending industry best practices. The LCC is also responsible for developing procedures to ensure that loans are consistently and prudently documented and booked.

### **Loan Portfolio Manager**

The **Loan Portfolio Manager (LPM)** is responsible for setting up payments in the servicing platform (Downhome), tracking and recording loan payments from borrowers, and maintaining updated payment information for funding agency reports. The Loan Portfolio Manager is also responsible for ensuring that booked loans are serviced in accordance with loan documentation and applicable regulations. The LPM is also responsible for maintaining a tracking system for loan covenants and requirements including items that are coming due, due, or delinquent. The LPM is also responsible for ensuring that loan collateral and related insurance is perfected and in place throughout the term of the loan.

**It is understood that the above positions could require additional tasks based on new programs and/or program changes.**

## **POLICY HIERARCHY & STRUCTURE**

There are three levels in California Capital's Credit Risk Policy hierarchy, including:

- Direct Lending Policy
- Underwriting Guidelines
- Direct Lending Procedures

### **Direct Lending Policy**

This Direct Lending Policy establishes the fundamental credit principles that guide California Capital's direct lending activities. This Policy, and any subsequent changes to it, is reviewed and recommended by the LAB and must be approved by the Board at least annually.

### **Underwriting Guidelines**

Underwriting Guidelines establish specific underwriting and documentation guidelines under which California Capital makes loans. Underwriting Guidelines are recommended by the DOL and must be approved by the LAB at least annually.

At a minimum, Underwriting Guidelines will establish acceptable standards for:

- Maximum loan to value ratios for secured loans
- Maximum loan term and amortization
- Minimum cash flow coverage ratios
- Requirements for guarantees and other credit enhancements
- Reporting requirements
- Documentation requirements

### **Direct Lending Procedures**

Direct Lending Procedures are the detailed procedures for analyzing, approving, documenting, funding, monitoring, and servicing loans in a way that adheres to California Capital's Direct Lending Policy and Underwriting Guidelines. Procedures are recommended by Management and must be approved by the DOL at least annually.

At a minimum, Direct Lending Procedures will address:

- Taking an Application
- Underwriting Format/Processes
- Approval Format/Processes
- Documentation Format/Processes
- File Format/Requirements
- Closing Processes
- Maintenance/Servicing Requirements
- Problem Loan/Special Assets Processes

### **Exception Approval and Reporting**

From time to time, California Capital may extend credit in a way that deviates from written policies, procedures and guidelines. Deviations from published Policy and Guidelines are considered "Policy Exceptions." Deviations from published procedures are known as "Procedure Exceptions." Exceptions must be approved as follows:

- Policy Exceptions – Must be approved by the LAB
- Procedure Exceptions – Must be approved by the DOL, CFO or OD

The DOL is responsible for tracking Policy Exceptions and reporting them to the Board at least quarterly. Below is a list of exceptions that California Capital will track.

### **Exception Types**

#### Policy Exceptions (reported to Board quarterly)

- DSCR
- LTV
- Loan Term
- Loan Amortization
- Guarantee

- Interest Rate
- Minimum Equity Injection

Procedure Exceptions (tracked internally by management)

- Financial Reporting
- Maintenance Covenants
- Required Closing Documents

**Policy Hierarchy & Approval Grid**

<b>Party Responsible to:</b>	<b>Direct Lending Policy</b>	<b>Underwriting Guidelines</b>	<b>Direct Lending Procedures</b>
<b>Recommend</b>	LAB	DOL	Management
<b>Approve</b>	Board	LAB	DOL
<b>Identify Exceptions</b>	DOL and Credit Team		
<b>Approve Exceptions</b>	LAB	DOL	DOL, CFO or OD
<b>Ensure Proper Exception Approval Prior to Documentation</b>	Closing Coordinator	Closing Coordinator	Closing Coordinator
<b>Track Exceptions</b>	DOL (or designee)		
<b>Report Exceptions to the Board</b>	DOL (or designee)		

**LOAN TYPES & STRUCTURE**

**Desirable Loan Types**

The following loan types are desirable to California Capital assuming that they are extended to Borrowers of sound character with well-identified sources of repayment:

- Revolving Lines of Credit (also known as Operating or Working Capital Lines of Credit) - These loans are made to support a borrower's cash-flow requirements during fluctuations of a business cycle. In general, RLOC's will be structured as follows:

<b>Term</b>	Up to 36 months
<b>Amortization</b>	N/A
<b>Payment Type</b>	Interest monthly, principal due at maturity
<b>Collateral</b>	UCC filing on business assets
<b>Interest Rate Type</b>	Variable

- Term Loans – Term loans are made for a variety of business reasons including but not limited to business acquisition, equipment purchase/refinance, or permanent working capital. In general, term loans will be structured as follows:

<b>Term</b>	Up to 7 years, not to exceed useful life of underlying collateral
<b>Amortization</b>	Equal to loan term (aka fully amortizing)
<b>Payment Type</b>	Monthly principal and interest
<b>Collateral</b>	UCC filing on business assets; specific filing/lien on equipment financed with loan; may also take lien on real estate as needed
<b>Interest Rate Type</b>	Variable or fixed

- Commercial Real Estate Loans – These loans are most commonly used to acquire or refinance real estate collateral. In general, CRE loans will be structured as follows:

<b>Term</b>	Up to 15 years, not to exceed useful life of underlying collateral
<b>Amortization</b>	Equal to loan term (aka fully amortizing)
<b>Payment Type</b>	Monthly principal and interest
<b>Collateral</b>	1 <sup>st</sup> or 2 <sup>nd</sup> D/T on real estate collateral
<b>Interest Rate Type</b>	Variable or fixed

- Commercial Lines of Credit (CLOC) – These loans are most commonly used to assist in the working capital which includes carrying accounts receivable and inventory. In general, CLCC loans will be structured as follows:

<b>Term</b>	12 months
<b>Amortization</b>	None
<b>Payment Type</b>	Monthly interest only with 30 day "clean up"
<b>Collateral</b>	UCC filing on business assets including accounts receivable and inventory
<b>Interest Rate Type</b>	Fixed for one year

### Primary markets

California Capital will focus its lending activities in geographical market areas defined as San Joaquin County north to the Oregon border, including coastal and inland counties.



While the majority of loans will be in this area, California Capital may choose to make loans outside of this market area when such loan(s) can be done in a prudent manner and for a purpose that aligns with California Capital's mission.

## **CREDIT STANDARDS**

It is California Capital's policy to ensure that all extensions of credit are prudently and consistently initiated, underwritten and monitored over time for signs of strain. Management is responsible for developing Procedures for the extension of credit in accordance with the organization's core credit standards, which are outlined below.

### **Taking an Application**

California Capital will document all credit applications in accordance with Procedures established by Management for the type of credit requested. California Capital defines a completed application as an application that it has received, which contains the information that California Capital regularly obtains and considers in evaluating applications for the amount and type of credit requested. This includes, but is not limited to, credit reports, financial statements and tax returns from parties on the loan, any additional information requested from the applicant, and any approvals or reports by governmental agencies or other persons that are necessary to guarantee, insure, or provide security for the credit or collateral.

### **Conflicts of Interest**

Lending staff will avoid making loans where other considerations may affect either the credit judgment exercised or the organization's ability to subsequently employ normal collection techniques. As an example, caution should be exercised in making loans to close relatives of employees since such loans can become embarrassing to handle given the personal relationships involved. Also, caution should be exercised on loans to a borrower for the purpose of financing the purchase of an automobile or other asset from an employee of the organization. Under no circumstances may lending staff make loans to their relatives, and loan applications from friends should be passed to another lending staff member for processing and approval.

### **Character/Credit**

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

Borrowers whose credit histories exhibit these characteristics should be carefully considered before granting credit and suitable explanations should be sought. Borrowers who cannot fully explain and mitigate credit flaws represent a high risk to California Capital and are discouraged.

### **Capacity**

A required compliment to a borrower's willingness to repay is his or her ability (aka "capacity") to repay an obligation. If a borrower cannot demonstrate income or assets to generate the necessary cash flow (primary source of repayment) to repay or does not possess the financial strength to weather unexpected challenges along the way, he or she may not have the capacity to repay in spite of their good character and credit rating. Therefore, it is California Capital's policy to appropriately determine a borrower's income, cash flow and financial strength prior to granting credit. The following borrower characteristics are key indicators of a borrower's capacity to repay their debts, depending upon the type of credit:

- For consumer and mortgage credit, sufficient income to repay the debt as witnessed by a debt-to-income ratio in line with industry standards
- For commercial credit, demonstrated cash flow in excess of debt service requirements (both stand-alone and global)
- Reasonable Leverage and Debt Levels
- Reasonable Liquidity to Satisfy Short Term Obligations
- History of Employment or Profitability

Borrowers lacking in characteristics demonstrating capacity based on the type of credit applied for should be carefully considered before granting credit. Borrowers exhibiting a lack of two or more of the required characteristics should be avoided.

### **Collateral/Secondary Source of Repayment**

Collateral, whether securing a loan or, in the case of unsecured credit, assets that are available and liquid, is fundamental to providing a strong secondary source of repayment. In spite of a borrower's willingness and ability at the inception of a loan, challenges during the term of a loan can diminish or eliminate capacity making it imperative that California Capital have a secondary source of repayment for its loan. It is the organization's policy to appropriately determine what collateral is available, its acceptability, value and salability, and ultimately what loan to value is appropriate given these characteristics.

Borrowers with minimal collateral or weak secondary sources of repayment should be carefully considered before granting credit. Borrowers with no collateral or secondary source of repayment should be avoided.

### **Guarantees**

California Capital generally requires the unlimited guarantee of any principal with 20% or greater ownership interest in the Borrowing entity.

Although guaranties may add support and mitigate an applicant's deficiencies (i.e., financial strength, collateral, or lack of credit history), they should not be used as a substitute for deficiencies in an applicant's character, poor credit history, or weak primary source of repayment.

No guarantees will be taken if they are prohibited under Regulation B (Equal Credit Opportunity Act). If the guarantee of a spouse is taken when that spouse does not meet any of the preceding criteria, the lending officer should document the reason(s) for obtaining a spousal guarantee in the credit file.

Personal guarantees are generally not required for non-profit entities, regardless of the legal structure of the entity, due to the lack of personal ownership and the difficulty in establishing legal consideration.

### **Matching Loan Purpose with Repayment Source**

It is California Capital's policy to understand loan purpose and analyze cash flow and sources and uses of cash before making a loan. The loan should then be structured so that it will be repaid on a schedule acceptable to California Capital from normal operating cash flows. In this manner, California Capital avoids financing unproductive or non-income producing assets and does not make loans which overburden the borrower's repayment ability.

### **Documentation**

The responsibility for proper documentation rests with the underwriter and the LPC. This includes ensuring that the documentation conforms to all requirements of the approval, is supported by appropriate entity documentation where required, and is properly signed and returned to California Capital prior to funding.

All extensions of credit must be evidenced by legally enforceable documents prepared by the organization's Loan Closing Coordinator, reviewed by the Underwriter and/or Director of Lending and when needed, the organization's legal counsel. Whenever possible, California Capital-approved forms should be utilized. Standard Documentation is to be reviewed and approved by California Capital's legal counsel at least annually.

## Reporting / Monitoring

Once a credit has been boarded, it must be monitored for compliance with any servicing requirements (e.g. required periodic financial statement and tax return submission and covenants), and for general performance within appropriate loan and credit agreement terms. In addition, California Capital will monitor credit performance both internally and externally through updated credit scores or other means available to California Capital. Monitoring is key to ensuring the safety and soundness of California Capital's direct loan portfolio.

All direct lending loans will be reviewed at least annually with an appropriate review memo to file. Loans with a higher risk profile (i.e. loans to borrowers with high leverage, minimal profitability, minimal working capital, weak cash flow) should be monitored at least quarterly or more often as necessary. Any disconcerting interim events or trends should be evaluated and reported to Management as necessary. All loans will be monitored at the portfolio level at least quarterly. Changes in portfolio activity, quality, concentrations, exceptions, will be reported by the DOL to the LAB at least quarterly.

## LOAN APPROVAL

Loans will be approved in accordance with authorities laid out in the following loan approval matrix:

### Loan Approval Authority Matrix

Credit Action	Approval Authority
Loans up to \$25,000*	Credit Underwriter and DOL
Loans Between \$25,001 - \$50,000	CEO and CFO
Loans over \$50,000	LAB
Troubled Debt Restructure	LAB
Non-accrual Designation	LAB and CFO
Liquidation	LAB

\*Loans up to \$25,000 shall be approved by the Credit Underwriter and the Director of Lending (DOL). When the Credit Underwriter has underwritten the loan, he/she shall present the loan to the DOL; If the DOL has underwritten the loan, then he/she shall

present the loan request to the Credit Underwriter. Both the Credit Underwriter and DOL must approve the loan request.

A newly hired Credit Underwriter must have six months experience underwriting loans for California Capital prior to having the authority to approve a loan. During the first six months of employment, the newly hired Credit Underwriter will present the loan to the Credit Underwriter and DOL, who shall have the authority to approve the loan request. After six months, the newly hired Credit Underwriter may present the loan directly to the DOL for approval.

If the DOL is not available to review and approve a loan presented by the Credit Underwriter, or the Credit Underwriter is not available to review and approve a loan presented by the DOL, then the CEO or CFO will provide the secondary approval.

### **Delegated Approval Authority**

From time to time, loans require certain structural changes after getting approved by the LAB. Such changes may result from competition, a changing project scope or otherwise. In order to allow California Capital to respond quickly to such changes without reconvening a LAB quorum, the DOL is granted delegated authority to approve the following changes to LAB-approved loans provided that such changes don't create any exceptions to California Capital's Direct Lending Policy:

- Increasing a loan commitment by up to 10%
- Decreasing an interest rate by up to 0.50%
- Changing collateral when, at the CLO's discretion, the change results in California Capital's security position being similar to the originally approved position
- Changing the Use of Proceeds of a Project
- For any changes other than those described above will be presented to the LAB for approval

Any changes approved through this delegated approval authority must be documented in a memo to the credit file, with the memo signed and dated by the DOL CLO. The memo should address the proposed change(s) and how it (they) impact(s) key underwriting metrics like DSCR, LTV, Current Ratio, Working Capital and Debt/Worth Ratio.

## **PORTFOLIO MANAGEMENT**

### **Risk Ratings and Standards**

An effective Risk Rating System is critical to Management's ability to assess the effectiveness of lending and underwriting staff, measure credit risk in the loan portfolio, and to ensure the adequacy of the organization's reserve for loan losses. Therefore, it

is California Capital's policy to use an effective Risk Rating System that consistently and accurately assesses credit risk to ensure informed decision making.

It is the responsibility of the Underwriter/Loan Officer and the DOL to properly rate and re-rate credits as necessary. The DOL shall establish procedures that ensure risk ratings are accurately assigned at loan inception and monitored over time for appropriateness based on changes to a loan's risk profile.

California Capital's Risk Rating System is outlined below:

<b>Risk Rating</b>	<b>Standard / Definition</b>
<p><b>1</b></p>	<p><b>PASS/ACCEPTABLE</b></p> <p>Credits with this rating should meet most if not all policy standards in regard to:</p> <ul style="list-style-type: none"> <li>• LTV</li> <li>• debt service coverage (DSC)</li> <li>• profitability</li> <li>• leverage</li> <li>• working capital</li> </ul> <p>The borrower should be in compliance with all loan covenants and loan agreement terms. Primary source of repayment may contain speculative features, but secondary support is clearly documented and acceptable.</p>
<p><b>2</b></p>	<p><b>PASS/WATCH</b></p> <p>Credits rated "2" are experiencing some sort of circumstance that requires a higher level of monitoring.</p> <p>Reasons for the increased scrutiny and monitoring may include but are not limited to:</p> <ul style="list-style-type: none"> <li>• deteriorated current cash flow and debt service coverage</li> <li>• deteriorating balance sheet or earnings trends</li> <li>• deterioration in industry or economic conditions</li> <li>• declining collateral values</li> <li>• increasing leverage</li> <li>• weak liquidity</li> <li>• failure to comply with some loan covenants and/or loan agreement terms</li> <li>• recent management changes which create an increased level of uncertainty</li> </ul> <p>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 should be reviewed more regularly to determine if identified weaknesses/risks are improving or further deteriorating.</p>
<p><b>3</b></p>	<p><b>SPECIAL MENTION</b></p> <p>Credits rated "3" typically display many of the characteristics described for Risk Rating 2 – Pass/Watch loans above yet lack mitigating factors that would justify a Pass rating. If left unaddressed and uncorrected, these potential weaknesses may result in deterioration of the repayment prospects of the loan or may inadequately protect California Capital's position in the future. Although the global cash flow of the borrower may add support, it does not fully mitigate deterioration in the credit. These loans pose elevated risk but do not yet justify a substandard classification. Although a credit with this rating has a higher probability of default than a pass loan, its default is not imminent.</p>

**Risk  
Rating**

**Standard / Definition**

Characteristics of this type of credit are:

- loans where the obligor's balance sheet and/or cash flow is strained to a point where, if such strain is uncorrected, repayment of the loan according to terms is unlikely
- loans with strained cash flow where repayment is in part reliant upon global resources

A distinction between a Special Mention and Substandard is that a Special Mention Loan continues to pay as agreed and has identified weaknesses that, if not corrected, could result in the loan not being repaid according to terms. In the case of a Substandard loan, the loan may or may not be paying as agreed but the obligor lacks the viable plan and resources to ensure ongoing payment according to terms.

Special Mention should be used as a transition risk rating because, by definition, it denotes a loan with specific deficiencies that will either be sufficiently addressed before the borrower is unable to repay the loan according to terms (resulting in an upgrade) or continue to a point where ongoing payment according to terms is unlikely (resulting in a downgrade).

**4**

**SUBSTANDARD**

Credits rated "4" typically exhibit weaknesses that are well defined to the point where repayment is jeopardized. Loss potential is, however, not necessarily evident.

Current financial capacity is not sufficient to support the debt as currently structured. Financial condition, either through losses or balance sheet liquidity, indicates an inability to perform according to terms. While collateral may protect against loss, there is a strong probability that collateral liquidation outside the normal course of business, will be necessary to effect repayment.

Characteristics of this type of credit are:

- loans where the obligors are unable to generate enough cash flow for debt repayment
- interest payments and/or fees have been capitalized or deferred
- restructured credit with favorable terms to the existing borrower in a workout situation
- non-accrual loans adequately protected by the current market value of collateral
- borrower has filed bankruptcy
- loans past due for 90 days or more without extenuating circumstances approved by Credit Administration
- loans that are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any
- loans where future losses to California Capital are possible if the deficiencies in the assets are not corrected
- loans where the possibility of liquidation would not be timely even if there is little likelihood of total loss
- loans where the primary source of payment is gone and California Capital is relying on a secondary source for repayment
- loans where a loss does not seem likely, but enough problems have occurred causing California Capital's management to take measures to protect its position as to ensure a high probability of payment
- loans where collateral has deteriorated and may only marginally support full repayment of the loan
- classified Substandard by regulators or external/internal loan review

<b>Risk Rating</b>	<b>Standard / Definition</b>
<b>5</b>	<p data-bbox="344 321 487 352"><b>DOUBTFUL</b></p> <p data-bbox="344 373 1393 464">An asset classified doubtful has all the weaknesses inherent in a Substandard loan with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.</p> <p data-bbox="344 474 722 506">Characteristics of a doubtful loan:</p> <ul data-bbox="386 516 1377 905" style="list-style-type: none"> <li>• based upon review of collateral, credit information and/or current financial condition or borrower, collectability in full is considered doubtful</li> <li>• any non-accrual loan that is not considered adequately protected by current market value of collateral and which has not been written down or reserved. Accrued interest should be reversed.</li> <li>• loans where the possibility of a loss is high but, because of certain important and specific pending factors, which may strengthen the loan, its classification as an estimated loss is deferred until a more exact status can be determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfection of liens on additional collateral or other financing plans</li> <li>• loans where a "Loss" classification would normally be warranted if pending events did not occur, and repayment was deferred to await new developments</li> <li>• classified doubtful by regulators or external/internal loan review</li> </ul> <p data-bbox="344 915 1382 1066">The entire credit should not be classified doubtful when collection of a specific portion of the loan balance appears highly probable. For example, if through proper valuation techniques it is determined that a loan is 30% to 50% collectible; the appropriate classification would be 30% substandard, 20% doubtful, and 50% loss. By definition, the only part that is doubtful is the 20% portion between the 30% and 50%.</p>
<b>6</b>	<p data-bbox="344 1087 414 1119"><b>LOSS</b></p> <p data-bbox="344 1136 1263 1192">A loan classified as Loss is considered uncollectible and of such little value that its continuance as a viable asset is not warranted.</p> <p data-bbox="344 1209 1369 1297">This classification does not mean that the loan has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off the loan, even though some recovery may occur in the future.</p> <p data-bbox="344 1314 1369 1371">The portion of the loan that is graded loss should be charged off no later than the end of the quarter in which the loss is identified.</p> <p data-bbox="344 1388 836 1419">Other characteristics of this type of loan are:</p> <ul data-bbox="386 1430 1377 1518" style="list-style-type: none"> <li>• based upon review of collateral, credit information, and/or current financial condition of the borrower, full collectability is considered remote</li> <li>• classified loss by regulators or external/internal loan review</li> </ul>

**Special Assets**

It is California Capital's policy to manage problem loans back to performing status whenever possible or, when this is not possible, to manage such credits out of the organization. Managing special assets is the responsibility of the or his/her designee. California Capital monitors special assets in accordance with the following standards:



<b>Standard Impairment</b>	<b>Description</b>
<b>Past Due, Non-accrual &amp; Troubled Debt Restructured (TDR) Loans</b>	<p>California Capital considers a loan to be impaired if it falls into at least one of the following categories:</p> <ul style="list-style-type: none"> <li>• The loan is more than 90 days past due</li> <li>• The loan is in non-accrual status</li> <li>• The loan is or has been classified as a TDR</li> </ul> <p>If a loan is impaired, an impairment analysis must be performed to determine if a specific reserve or charge-off is required. The DOL or assignee must collect all of the appropriate collateral data and determine if California Capital's standard discount for that loan's collateral will result in an appropriate reserve. This reserve will then be included in the monthly calculation of California Capital's loan loss reserve. If a charge off is required, it should be processed as soon as possible but not later than the quarter in which it is determined necessary.</p> <p>This impairment process will compare California Capital's loan balance to either:</p> <ul style="list-style-type: none"> <li>• the net collateral value (where net collateral value is defined as the market value less priority liens and costs to sell) or</li> <li>• the present value of the anticipated cash flow stream or,</li> <li>• in rare instances, the market value of the loan (this assumes the loan can be sold and the market value can be determined)</li> </ul> <p>Any differences between the loan balance and the above will be carried as a specific reserve or, if applicable, charged off.</p>
<b>Charge-Offs</b>	<p>It is California Capital's policy to carry assets at realistic values and to be fully reserved against potential exposures to loss. This will be implemented through a proactive approach toward asset write-downs and/or the establishment of specific reserves against potential loss exposure as necessary.</p>
<b>Capitalization of Interest</b>	<p>The practice of converting interest due on a note into principal is known as capitalization of interest. California Capital policy does not generally allow for capitalization of interest.</p>
<b>Compromise Settlement / Forgiveness of Debt</b>	<p>A compromise settlement of an existing debt, which results in the forgiveness of any portion of that debt, may only be considered when all other reasonable efforts to collect have failed. A compromise settlement includes the taking or acceptance of an asset (other than liquid or readily marketable collateral held on account with California Capital) in lieu of loan repayment. The authority to make compromise settlements rests solely with the LAB.</p>
<b>Foreclosure / Repossession</b>	<p>It is California Capital's policy to require that foreclosures and repossessions be handled in a manner to minimize loss, maximize recovery, and limit company liability by ensuring the organization has pursued all reasonable alternatives for collection and repayment of loans prior to engaging in foreclosure or repossession. Foreclosures and repossessions require specialized knowledge therefore, only the DOL CLO will manage foreclosures and repossessions.</p>

Standard	Description
	California Capital must ensure foreclosures and repossessions are accounted for in conformance with generally accepted account principles (GAAP).
<b>Foreclosure / Sale Bid Approval Limits</b>	Foreclosure/Sale bid and request for bid checks must be approved by the LAB.
<b>Other Real Estate Owned (OREO)</b>	<p>It is California Capital's policy to manage its Other Real Estate Owned (OREO) and Other Assets in a manner to minimize loss, maximize recovery and limit company liability while mitigating the impact on surrounding property values. California Capital must also ensure OREO &amp; Other Assets are accounted for in conformance with generally accepted accounting principles (GAAP).</p> <p>Other Real Estate Owned (OREO) consists of real property held for reasons other than to conduct organization business. Other Assets consist of other property or an item with tangible value held for reasons other than to conduct organization business.</p>
<b>OREO Expense Approval Limits</b>	All expenses associated with the management, documentation, and collection of non-performing loans including those for litigation, repossession, and foreclosure as well as negotiation of any required documents, must be approved by the LAB.
<b>Regulation</b>	California Capital's loan work-out activities must at all times comply with all Local, State and Federal laws and regulations. It is especially important that California Capital not violate Consumer Collection law, rules and regulations including, but not limited to The Sailors and Soldier's Act; Federal Credit Reporting Act and Fair Debt Collections Practices Act.

### **Loan Loss Reserve**

California Capital provides a Loan Loss Reserve sufficient to account for probable loss inherent in the current loan portfolio. The adequacy of the Loan Loss Reserve will be reviewed by the CFO at least quarterly.

### **Credit Files**

It is the responsibility of each loan officer/underwriter and their management to ensure that credit files contain the information necessary to support the credit decisions made. The DOL is responsible for developing procedures regarding the establishment and maintenance of credit files that contain sufficient detail to allow proper evaluation of the soundness of the credit decision and the current status of the credit.

## California Capital Direct Lending Underwriting Grid

Loan Products	MICRO LOAN	MID RANGE LOAN	LARGE MICROLOAN
Maximum Amount	\$5,000-\$25,000	\$25,001-\$50,000	\$50,001-\$150,000
Term	Maximum Term up to 34 months	Maximum Term up to 84 months	Maximum Term up to 84 months
Interest Rate	WSJ Prime + up to 5%	WSJ Prime + up to 5%	WSJ Prime + up to 5%
Application Fee	\$100	\$100	\$100
Loan Fees	3% of loan amount + \$150 Doc Fee	3% of loan amount + \$150 Doc Fee	3% of loan amount + \$150 Doc Fee
Purpose of the Loan	Working capital, Business Equipment, Business Vehicles, Tenant Improvements, Inventory, Start-up expenses, Marketing		
<b>Cash Capacity Requirements</b>			
Business/Global Cash:Debt Service Ratio	Business DSCR at 1:1; Global DSCR at 1:1*		
If in business less than 12 months	Must have alternate source of income for personal household expenses		
Additional Guarantor	May be used to help borrower meet cash capacity requirement		
Bank Statements	2 NSF in past 3 months	1 NSF in past 3 months	0 NSF in past 3 months
<b>*Exceptions may be considered with mitigating factors</b>			
<b>Credit Requirements</b>			
FICO	No Minimum	No Minimum	No Minimum
Slow Pays*	Two in last six months	Two in last 12 months	None in last 12 months
Bankruptcy or Foreclosure	over 12 months ago	over 12 months ago	over 24 months ago
Collections*	No collections in past 12 months	No collections in past 12 months	No collections in past 24 months
Length of Credit History*	1 year of established credit	3 years established credit	5 years established credit
Loan Amount History	Past Loan of \$5,000	Past Loan of \$15,000	Past Loan of \$30,000
<b>*Except medical. Also, exceptions may be granted with letter of explanation</b>			
<b>Collateral Requirement</b>			
Collateral Value Requirement	General UCC Filing; UCC Filing on Specific equipment/machinery	General UCC Filing; UCC Filing on Specific equipment/machinery	General UCC Filing; UCC Filing on Specific equipment/machinery; 30% - 50% of loan amount
Type of Collateral Accepted	Vehicle, business equipment/inventory	Vehicle, business equipment/inventory	Vehicle, business equipment/inventory/2nd Deed of Trust (there must be \$75K of equity available)
<b>*At a minimum, a UCC-1 will be filed on all businesses</b>			
<b>Capital Requirements</b>			
Start Up Businesses (less than 2 years)	up to 20% of project	up to 20% of project	up to 20% of project
Existing Businesses	Up to 10% of project	Up to 10% of project	Up to 10% of project
<b>Character Requirements</b>			
Industry Experience	Required	Required	Required
Individual TA for projections	Required	If in business less than one year, pivoting or expanding	
Business planning course	Required	If in business less than one year, pivoting or expanding	

**RDL Guidelines**

<b>Personal Information Required</b>	Recent proof of all household income: 1 pay stub, Most recent proof of all verifiable source of income, last 3 months of bank statements , the most recent Individual Tax Return, copy of Utility Bill and ID or LexisNexis verification score of 40-50. If we are considering someone other than the Borrower's income to prove capacity we will need this person as co borrower on the note. We will require the same personal information from Coborrower(s)	Recent proof of all household income: 1 pay stub, Most recent proof of all verifiable source of income, last 3 months of bank statements , the most recent Individual Tax Return, copy of Utility Bill and ID or LexisNexis verification score of 40-50. If we are considering someone other than the Borrower's income to prove capacity we will need this person as co borrower on the note. We will require the same personal information from Coborrower(s)	Recent proof of all household income: 1 pay stub, Most recent proof of all verifiable source of income, last 3 months of bank statements , the two (s) most recent Individual Tax Return, copy of Utility Bill and ID or LexisNexis verification score of 40-50. If we are considering someone other than the Borrower's income to prove capacity we will need this person as co borrower on the note. We will require the same personal information from Coborrower(s)
<b>Business Information Required</b>	3 month of bank statements, or copies of receipts for the past three months, Most recent business tax return Business Utility Bill, Proof of Business Ownership.	3 months of bank statements, Profit & Loss, Balance Sheet, and 1 Business Tax Return.--Copy of Utility bill. Aging Schedules AR/AP	2 Business Tax Return, Year-to-date Profit & loss, Updated Balance Sheet, and Financial Projections. Form signed to get copies of tax returns from IRS.3 months of bank statements. Aging Schedules AR/AP.
<b>If Start Up Business</b>	Proof of Business Ownership and Informal Business Plan Required	Proof of Business Ownership, Formal Business Plan, Financial projections (including assumptions) and Start Up Balance Sheet Required	Proof of Business Ownership, Formal Business Plan, Financial projections (including assumptions) and Start Up Balance Sheet Required
<b>Personal Investment Required on start up business.</b>	Minimum Equity 10%**Proof of Equity required	Minimum Equity 20%**Proof of Equity required	Minimum Equity 20%**Proof of Equity required

California Capital Risk Matrix					
Company Name:	Loan Request Amount:	Date:	Notes	Performance Score	Score Justification
Weights	Category	Criteria	Notes		
10%	Industry Experience	Ranging from none to 5years+	Comments on ranking justification		1- 10+ years, 2- 5 to 10 years, 3- 3 to 5 years, 4- 1 to 3 years, 5 zero years
15%	Working Capital Levels	Measured based on the Borrower's performance relative to RMA industry averages or the number of months of operating reserves the Borrower has on its balance sheet			
15%	FICO/Credit Issues	e.g. prior BK, foreclosures w/in the last 5 years, active collections, charge offs, etc.	FICO:		1- above RMA upper quartile, 2- upper and mid, 3- mid to lower, 4- below RMA lower
5%	Collateral Support	Ranging from fully secured by tangible property and/ or cash to unsecured			1. FICO >740; 2. FICO >700; 3. FICO > 660; 4. FICO > 620; 5. FICO <619
50%	Repayment Ability	Global DSCR	2021 GDSC of		1. Fully secured tangible property (real estate or FF&E); 2. Loan 99% to 50% secured; 3. 49% to 25% secured, 4. Under 25%, 5. No Collateral
5%	Guarantor Support	Ranging from no guarantors and/ or weak guarantors to strong guarantors	Personal Guarantor w/NW at		1. Historic GDSC 1.1x+; 2. Historic GDSC 1.09 to .8; 3. Projected GDSC > 1.5; 4. Projected GDSC: 1.0-1.5
100%	Totals			0	1. Resources to fully repay loan (real estate equity and liquidity) 2. Resources to repay 100% to 50% of loan 3. Resources to repay 50% to 25% of loan 4. Less than 25%. 5. No resources.

## Risk Rating

### Standard / Definition

#### 1. PASS/ACCEPTABLE

Credits with this rating should meet most if not all policy standards in regard to:

- LTV
- debt service coverage (DSC)
- profitability
- leverage
- working capital

The borrower should be in compliance with all loan covenants and loan agreement terms. Primary source of repayment may contain speculative features, but secondary support is clearly documented and acceptable.

#### 2. PASS/WATCH

Credits rated "2" are experiencing some sort of circumstance that requires a higher level of monitoring. Reasons for the increased scrutiny and monitoring may include but are not limited to:

- deteriorated current cash flow and debt service coverage
- deteriorating balance sheet or earnings trends
- deterioration in industry or economic conditions
- declining collateral values
- increasing leverage
- weak liquidity
- failure to comply with some loan covenants and/or loan agreement terms
- recent management changes which create an increased level of uncertainty

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 should be reviewed more regularly to determine if identified weaknesses/risks are improving or further deteriorating.

#### 3. SPECIAL MENTION

Credits rated "3" typically display many of the characteristics described for Risk Rating 2 -- Pass/Watch loans above yet lack mitigating factors that would justify a Pass rating. If left unaddressed and uncorrected, these potential weaknesses may result in deterioration of the repayment prospects of the loan or may inadequately protect California Capital's position in the future. Although the global cash flow of the borrower may add support, it does not fully mitigate deterioration in the credit. These loans pose elevated risk but do not yet justify a substandard classification. Although a credit with this rating has a higher probability of default than a pass loan, its default is not imminent.

Characteristics of this type of credit are:

- loans where the obligor's balance sheet and/or cash flow is strained to a point where, if such strain is uncorrected, repayment of the loan according to terms is unlikely
- loans with strained cash flow where repayment is in part reliant upon global resources

A distinction between a Special Mention and Substandard is that a Special Mention Loan continues to pay as agreed and has identified weaknesses that, if not corrected, could result in the loan not being repaid according to terms. In the case of a Substandard loan, the loan may or may not be paying as agreed but the obligor lacks the viable plan and resources to ensure ongoing payment according to terms.

Special Mention should be used as a transition risk rating because, by definition, it denotes a loan with specific deficiencies that will either be sufficiently addressed before the borrower is unable to repay the loan according to terms (resulting in an upgrade) or continue to a point where ongoing payment according to terms is unlikely (resulting in a downgrade).

#### 4. SUBSTANDARD

Credits rated "4" typically exhibit weaknesses that are well defined to the point where repayment is jeopardized. Loss potential is, however, not necessarily evident.

Current financial capacity is not sufficient to support the debt as currently structured. Financial condition, either through losses or balance sheet liquidity, indicates an inability to perform according to terms. While collateral may protect against loss, there is a strong probability that collateral liquidation outside the normal course of business, will be necessary to effect repayment.

Characteristics of this type of credit are:

- loans where the obligors are unable to generate enough cash flow for debt repayment
- interest payments and/or fees have been capitalized or deferred
- restructured credit with favorable terms to the existing borrower in a workout situation
- non-accrual loans adequately protected by the current market value of collateral
- borrower has filed bankruptcy
- loans past due for 90 days or more without extenuating circumstances approved by Credit Administration
- loans that are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any
- loans where future losses to California Capital are possible if the deficiencies in the assets are not corrected

- loans where the possibility of liquidation would not be timely even if there is little likelihood of total loss
- loans where the primary source of payment is gone and California Capital is relying on a secondary source for repayment

- loans where a loss does not seem likely, but enough problems have occurred causing California Capital's management to take measures to protect its position as to ensure a high probability of payment

- loans where collateral has deteriorated and may only marginally support full repayment of the loan
- classified Substandard by regulators or external/internal loan review

#### 5 DOUBTFUL

An asset classified doubtful has all the weaknesses inherent in a Substandard loan with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Characteristics of a doubtful loan:

- based upon review of collateral, credit information and/or current financial condition or borrower, collectability in full is considered doubtful
- any non-accrual loan that is not considered adequately protected by current market value of collateral and which has not been written down or reserved. Accrued interest should be reversed.

- loans where the possibility of a loss is high but, because of certain important and specific pending factors, which may strengthen the loan, its classification as an estimated loss is deferred until a more exact status can be determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfection of liens on additional collateral or other financing plans
- loans where a "Loss" classification would normally be warranted if pending events did not occur, and repayment was deferred to await new developments

- classified doubtful by regulators or external/internal loan review

The entire credit should not be classified doubtful when collection of a specific portion of the loan balance appears highly probable. For example, if through proper valuation techniques it is determined that a loan is 30% to 50% collectible; the appropriate classification would be 30% substandard, 20% doubtful, and 50% loss. By definition, the only part that is doubtful is the 20% portion between the 30% and 50%.

#### 6 LOSS

A loan classified as Loss is considered uncollectible and of such little value that its continuance as a viable asset is not warranted.

This classification does not mean that the loan has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off the loan, even though some recovery may occur in the future.

The portion of the loan that is graded loss should be charged off no later than the end of the quarter in which the loss is identified.

Other characteristics of this type of loan are:

- based upon review of collateral, credit information, and/or current financial condition of the borrower, full collectability is considered remote
- classified loss by regulators or external/internal loan review

## EXHIBIT B-Compensation

		Cost per loan	Loan Fund	
<b>City of Lodi Hometown Loan Fund</b>		<b>\$21,250.00</b>	<b>\$340,000.00</b>	
<i>Estimated Number of Loans</i>	5-year Term Loans @ 5% interest			16
FEES	Origination	\$637.50	\$10,200.00	3%
	Underwriting	\$750.00	\$12,000.00	\$750 per loan
	Closing	\$500.00	\$8,000.00	\$500 per loan
	Servicing	\$1,062.50	\$17,000.00	5%
	Monitoring	\$212.50	\$3,400.00	1%
<b>Total Fees</b>		<b>\$3,162.50</b>	<b>\$50,600.00</b>	
Interest from Borrower Repayments		5.00% \$ 2,722.31	\$ 43,556.96	

		Cost per loan	Loan Fund	
<b>Leveraged Capital</b>		<b>\$50,000.00</b>	<b>\$250,000.00</b>	
<i>Estimated Number of Loans</i>	5-year Term Loans @ 5% interest			5
FEES	Origination	\$1,500.00	\$7,500.00	3%
	Underwriting	\$750.00	\$3,750.00	\$750 per loan
	Closing	\$500.00	\$2,500.00	\$500 per loan
	Servicing	\$2,500.00	\$12,500.00	5%
	Monitoring	\$500.00	\$2,500.00	1%
<b>Total Fees</b>		<b>\$5,750.00</b>	<b>\$ 28,750.00</b>	
Interest Rate Buydown (Amortized)		4.75% \$ 6,072.83	\$ 30,364.15	
		<b>\$11,822.83</b>	<b>\$59,114.15</b>	
Interest from Borrower Repayments		5.0% \$ 6,405.38	\$ 32,026.90	

**Fee Summary:**

Hometown Microloan Fund-Loan Fees	\$50,600
Leveraged Capital- Loan Fees	\$28,750
Leveraged Capital-Interest Buydown	\$30,364
<b>Total Fees</b>	<b>\$109,714</b>





# EXHIBIT C

**NOTE: The City of Lodi is now using the online insurance program PINS Advantage. Once you have been awarded a contract you will receive an email from the City's online insurance program requesting you to forward the email to your insurance provider(s) to submit the required insurance documentation electronically**

## Insurance Requirements for Professional Services

Contractor shall procure and maintain for the duration of the contract insurance against claims for injuries to persons or damages to property which may arise from or in connection with the performance of the work hereunder and the results of that work by the Contractor, his agents, representatives, employees or subcontractors.

### **MINIMUM SCOPE AND LIMIT OF INSURANCE**

Coverage shall be at least as broad as:

1. **Commercial General Liability (CGL):** Insurance Services Office Form CG 00 01 covering CGL on an "occurrence" basis, including products and completed operations, property damage, bodily injury and personal & advertising injury with limits no less than **\$1,000,000** per occurrence. If a general aggregate limit applies, either the general aggregate limit shall apply separately to this project/location (ISO CG 25 03 or 25 04) or the general aggregate limit shall be twice the required occurrence limit.
2. **Automobile Liability:** ISO Form Number CA 00 01 covering any auto or if Contractor has no owned autos, then hired, and non-owned autos with limit no less than **\$1,000,000** per accident for bodily injury and property damage.
3. **Workers' Compensation:** as required by the State of California, with Statutory Limits, and Employer's Liability Insurance with limit of no less than **\$1,000,000** per accident for bodily injury or disease.
4. **Professional Liability (Errors and Omissions)** Insurance appropriate to the Consultant's profession, with limits not less than **\$1,000,000** per occurrence or claim, \$2,000,000 aggregate. May be waived by Risk Manager depending on the scope of services.

### **Other Insurance Provisions:**

- (a) **Additional Named Insured Status**  
The City of Lodi, its elected and appointed boards, commissions, officers, agents, employees, and volunteers are to be covered as additional insureds on the CGL and auto policy with respect to liability arising out of work or operations performed by or on behalf of the Contractor including materials, parts, or equipment furnished in connection with such work or operations. General liability coverage can be provided in the form of an endorsement to the Contractor's insurance (at least as broad as ISO Form CG 20 10 11 85 or if not available, through the addition of both CG 20 10, CG 20 26, CG 20 33, or CG 20 38; **and** CG 20 37 if a later edition is used
- (b) **Primary and Non-Contributory Insurance Endorsement**  
The limits of insurance coverage required may be satisfied by a combination of primary and umbrella or excess insurance. For any claims related to this contract, the Contractor's insurance coverage shall be primary coverage **at least as broad as** ISO CG 20 01 04 13 as respects the Entity, its officers, officials, employees, and volunteers. Any insurance or self-insurance maintained by the Entity, its officers, officials, employees, or volunteers shall be excess of the Contractor's insurance and shall not contribute with it.
- (c) **Waiver of Subrogation** Contractor hereby grants to City of Lodi a waiver of any right to subrogation which any insurer of said Contractor may acquire against the City of Lodi by virtue of the payment of any loss under such insurance. Contractor agrees to obtain any endorsement that may be necessary to affect this waiver of subrogation, but this provision applies regardless of whether or not the City of Lodi has received a waiver of subrogation endorsement from the insurer

**NOTE:** (1) The street address of the **CITY OF LODI** must be shown along with (a) and (b) and (c) above: 221 West Pine Street, Lodi, California, 95240; (2) The insurance certificate must state, on its face or as an endorsement, a description of the project that it is insuring.

- (d) **Severability of Interest Clause**  
The term "insured" is used severally and not collectively, but the inclusion herein of more than one insured shall not operate to increase the limit of the company's liability under the Contractors commercial general liability and automobile liability policies.
- (e) **Notice of Cancellation or Change in Coverage Endorsement**  
This policy may not be canceled nor the coverage reduced by the company without 30 days' prior written notice of such cancellation or reduction in coverage to the Risk Manager, City of Lodi, 221 West Pine St., Lodi, CA 95240.

- (f) Continuity of Coverage  
All policies shall be in effect on or before the first day of the Term of this Agreement. At least thirty (30) days prior to the expiration of each insurance policy, Contractor shall furnish a certificate(s) showing that a new or extended policy has been obtained which meets the minimum requirements of this Agreement. Contractor shall provide proof of continuing insurance on at least an annual basis during the Term. If Contractor's insurance lapses or is discontinued for any reason, Contractor shall immediately notify the City and immediately obtain replacement insurance. Contractor agrees and stipulates that any insurance coverage provided to the City of Lodi shall provide for a claims period following termination of coverage which is at least consistent with the claims period or statutes of limitations found in the California Tort Claims Act (California Government Code Section 810 et seq.).
- (g) Failure to Comply  
If Contractor fails or refuses to obtain and maintain the required insurance, or fails to provide proof of coverage, the City may obtain the insurance. Contractor shall reimburse the City for premiums paid, with interest on the premium paid by the City at the maximum allowable legal rate then in effect in California. The City shall notify Contractor of such payment of premiums within thirty (30) days of payment stating the amount paid, the name(s) of the insurer(s), and rate of interest. Contractor shall pay such reimbursement and interest on the first (1st) day of the month following the City's notice. Notwithstanding any other provision of this Agreement, if Contractor fails or refuses to obtain or maintain insurance as required by this agreement, or fails to provide proof of insurance, the City may terminate this Agreement upon such breach. Upon such termination, Contractor shall immediately cease use of the Site or facilities and commence and diligently pursue the removal of any and all of its personal property from the site or facilities.
- (h) Verification of Coverage  
Consultant shall furnish the City with a copy of the policy declaration and endorsement page(s), original certificates and amendatory endorsements or copies of the applicable policy language effecting coverage required by this clause. All certificates and endorsements are to be received and approved by the City before work commences. However, failure to obtain the required documents prior to the work beginning shall not waive the Consultant's obligation to provide them. The City reserves the right to require complete, certified copies of all required insurance policies, including endorsements required by these specifications, at any time. **Failure to exercise this right shall not constitute a waiver of the City's right to exercise after the effective date.**
- (i) Self-Insured Retentions  
Self-insured retentions must be declared to and approved by the City. The City may require the Consultant to provide proof of ability to pay losses and related investigations, claim administration, and defense expenses within the retention. The policy language shall provide, or be endorsed to provide, that the self-insured retention may be satisfied by either the named insured or City.
- (j) Insurance Limits  
The limits of insurance described herein shall not limit the liability of the Contractor and Contractor's officers, employees, agents, representatives or subcontractors. Contractor's obligation to defend, indemnify and hold the City and its officers, officials, employees, agents and volunteers harmless under the provisions of this paragraph is not limited to or restricted by any requirement in the Agreement for Contractor to procure and maintain a policy of insurance.
- (k) Subcontractors  
Consultant shall require and verify that all subcontractors maintain insurance meeting all the requirements stated herein, and Consultant shall ensure that City is an additional insured on insurance required from subcontractors
- (l) Claims Made Policies  
If any of the required policies provide coverage on a claims-made basis:  
1. The Retroactive Date must be shown and must be before the date of the contract or the beginning of contract work.  
2. Insurance must be maintained and evidence of insurance must be provided for **at least** five (5) years after completion of the contract of work.  
3. If coverage is canceled or non-renewed, and not replaced with another claims-made policy form with a Retroactive Date prior to the contract effective date, the Consultant must purchase "extended reporting" coverage for a minimum of five (5) years after completion of contract work.
- (m) Qualified Insurer(s)  
All insurance required by the terms of this Agreement must be provided by insurers licensed to do business in the State of California which are rated at least "A-, VI" by the AM Best Ratings Guide, and which are acceptable to the City. Non-admitted surplus lines carriers may be accepted provided they are included on the most recent list of California eligible surplus lines insurers (LESLI list) and otherwise meet City requirements.