

## FAQ's (Lenders)

### 1. What is the basic criteria for qualification under the State Loan Guaranty Program?

The Small Business Development Corporations Law defines a qualified Borrower as one who:

- Has no probability that the loan would be granted by a financial company under reasonable terms and conditions, and the borrower has demonstrated a reasonable prospect of repayment.

- Will use the loan proceeds exclusively for business activities in this state.

- Qualifies as a small business loan or an employment incentive loan.

- Has a minimum equity interest, average 30%.

- And as a result of the loan, the jobs generated or retained conform to the employment criteria.

### 2. What if the borrower has no collateral to support their loan request?

A lack of collateral should not preclude a small business from obtaining a guaranty. If worthwhile collateral is available, however, SBFDC will attempt to secure the loan with that collateral. A refusal on the part of the Borrower constitutes a basis for decline.

### 3. When are financial projections required?

They are required if a company has not shown three consecutive years of historical profits and growth. The company may be in start-up or recovery mode.

### 4. How long does it take to process a request for guaranty?

The Small Business Financial Development Corporation (SBFDC) has established procedures to ensure a timely turnaround of a lenders request. Normal processing time is seven business days or less.

### 5. What is the difference between a ?Collection Guaranty? and a ?Loan Guaranty??

A collection guaranty requires the bank to liquidate against collateral prior to making demand against the SBFDC for payment. A loan guaranty does not require the bank to liquidate against collateral prior to making demand for payment, only prove the loan is in default and that certain basic notifications have been sent. SBFDC of Orange County is currently writing Collection Guaranties only. The purpose for writing collection guaranties is to take advantage of the larger staffs and high level of expertise provided by our participating lenders and their ability to maximize value during liquidation, which will benefit both the bank and the SBFDC.

### 6. What happens to the guaranty of a line of credit upon maturity?

Thirty to sixty days prior to maturity, the bank is to contact the SBFDC and provide a status of the loan. The SBFDC is to negotiate in good faith with the lender and may pursue any one of the three options at its disposal. The loan may be renewed as a line of credit with a renewal of the guaranty (at least 5% less), the line of credit may be renewed as a term loan with a renewal of the guaranty (at least 5% less), or the guaranty would expire and not be renewed.

### 7. Which of the three options above has the SBFDC of Orange County utilized in the past with regard to maturing lines of credit?

Our policy is that renewal of a guaranty at maturity would not be unreasonably withheld if requested by the lender. Our goal is to provide a credit enhancement to participating lenders to entice said lenders to extend credit to a borrower who might not otherwise qualify. It is understood at inception that some lines of credit may not be handled as true lines of credit and therefore would require some sort of restructure at maturity.

### 8. Can the SBFDC reduce the amount of a guaranty, or refuse payment of a claim made upon the guaranty?

Yes, there are three circumstances under which the SBFDC or any of its counterparts may reduce, or refuse payment under a guaranty. The SBFDC may refuse to honor a guaranty if the Bank was fraudulent in its application for a guaranty or if it can be proved the lender was grossly negligent in the manner in which it serviced the underlying credit.

The guaranty may also be reduced if the lender fails to perfect upon any of the collateral. The reduction in the guaranty amount would be based upon the impact of the failure.

9. How should the Bank administer that portion of its portfolio secured by a guarantee provided by the SBFDC?  
The bank should administer and monitor all loans with a State Guarantee in a manner consistent with those loans in its portfolio not secured by a State Guarantee, and consistent with a degree of care considered standard within the banking industry.

10. What is the time frame for payment once a demand for guarantee has been made?  
Once the lender has liquidated against collateral they may make demand against the SBFDC for payment pursuant to its guarantee. The SBFDC will immediately review lender's file to determine whether the lender has perfected upon collateral and followed the terms and conditions outlined in the original commitment letter and guarantee. A request is then sent to the State of California Business, Transportation & Housing Agency for payment. Payment is expected in 21 days or less.

11. What is the SBFDC looking for when determining whether to approve a request for guarantee?  
The SBFDC has been allowed to establish its own lending criteria subject to certain limitations imposed by the State of California Department of Business, Transportation and Housing. Our policy was therefore based upon what we believe to be sound lending practices. Our assessment of acceptable risk however, is based upon a more liberal interpretation of the financial information provided. Our decision whether to extend a guarantee, and at what percentage of the gross loan is viewed in light of our mission which is to enhance the local economy and create jobs fostering economic development. As a general rule however, we look for the following:

- a. Reasonable assurance the borrower will be able to repay the debt. Historical performance, trends and well-supported and reasonable projections may be utilized to support this criterion.
- b. Borrower must have an equity position in the company.
- c. Although lack of collateral is not in itself cause for denial, if collateral is available borrower is expected to pledge said collateral in support of the loan. This may include but is not limited to all business assets, rolling stock, and real property.
- d. The fact borrower and or guarantors may have had previous credit problems must be taken into consideration when determining whether to approve a lenders request for guarantee. The SBFDC is looking for historical trends and may accept borrower's explanation in the case of bankruptcy and or delinquent obligations if said explanation is reasonable and can be documented.
- e. The owner of the business must have experience and the ability to successfully operate the business entity. Training provided by certain franchisors has been found acceptable in the past.

12. Can loan proceeds be used for any purpose?  
Loan proceeds can be utilized for any legitimate business purpose. Certain restrictions however, are in place with regard to the use of loan proceeds especially when requested for debt consolidation. Some of these restrictions are outlined below.

- a. Loan proceeds must be utilized in the State of California for the benefit of the State of California.
- b. Loan proceeds cannot be used for investment purpose such as speculation in the stock market, or purchasing non-owner occupied real property.
- c. Loan proceeds cannot be utilized to repay any debt to either the Federal or State Government.
- d. Loan proceeds cannot be utilized to pay off an existing loan with the lender. By enforcing this, the SBFDC ensures it does not replace a lender's unsecured at risk position with a guaranteed position provided by the SBFDC.
- e. If a loan is delinquent, it is not eligible for debt consolidation purposes.
- f. Loan proceeds cannot be utilized for the distribution to past or present stockholders, or replenish working capital utilized for said purpose.

13. Are any types of business ineligible under the program?  
Yes. The business must be a for profit company doing business in the State of California. Guaranteeing a loan to a business involved in gambling, multi-level marketing, or in direct lending such as a factorer is not allowed. Further, this program is designed for use by small business and is therefore subject to Federal Size Limitations as outlined in part 121 of chapter 1 of title 13 of the Code of Federal Regulations (<http://www.sba.gov/size/indexableofsize.html>).

14. Are all guarantees underwritten by the SBFDC at 90% of the gross loan amount?  
No. The SBFDC may provide a guarantee equal to 90% of the gross loan amount but not in excess of \$500,000.00 to

any one borrower. Our policy is to provide guarantees of a lesser amount in accordance with the table below. Exceptions to policy are made on a case-by-case basis.

Term Loans

Revolving Lines of Credit

\$0 to \$75,000

90.0%

90.0%

\$75,001 to \$150,000

80.0%

85.0%

\$150,001 to \$350,000

65.0%

80.0%

\$350,001 to \$500,000

50.0%

75.0%

For term loans, the guarantee generally expires at 36 months. This reflects the impetus to ?graduate? borrowers from the program within a reasonable time, and the three-year period is deemed sufficient for the lender to identify and liquidate a problem credit.