April 16, 2019

The Honorable Eloise Gomez Reyes

Assemblymember, 47th District

State Capitol Room 2175

Sacramento, CA 95814

**RE: AB 474 (Reyes) – SUPPORT**

Dear Assemblymember Gomez Reyes:

On behalf of the California Association of Micro Enterprise Opportunity (CAMEO), I write in support of AB 474 (Reyes). The bill will allow lenders to provide continued access to capital for California’s small businesses.

Created in 1994, CalCAP is a nationally-recognized loan portfolio insurance program that has helped support over 16,000 loans to our state’s small and micro businesses. It is currently run by the California Pollutant Control Financing Authority (CPCFA) housed within the State Treasurer’s Office.

In 2010, the Federal State Small Business Credit Initiative (SSBCI) was passed into law and large tranches of money were passed down to the states to support small business lending programs, including CalCAP. Nationally, capital access programs (CAPs) support a high volume of very small loans. CAPs provide a small but meaningful contribution, often set at a percentage of the loan amount (as high as 7%), that is pooled into a loan loss reserve (LLR) that can be used to cover charged-off loans. CAPs consist of matched contributions -- lenders contribute funds that are then matched by the State. As more loans are made, the pool grows, and more coverage is created for loans enrolled in the CAP. This provides coverage for lenders operating in underserved markets that often have a higher risk of default, enabling them to lend more and at better rates. Nationally, the median CAP loan size is approximately $14,800 and almost 47 percent of loans enrolled in CAP supported businesses in low-to-moderate (LMI) areas.

Nationally, the leverage ratio for CAPs was 23 to 1, meaning that $1 in CAP funding spurred $23 in lending activity. CalCAP also operates a second program with SSBCI funding known as the Collateral Support Program, a credit enhancement initiative that pledges cash to cover the collateral shortfall of loans made by participating lending institutions of $50,000 or more.

Federal SSBCI rules specified that money dispersed to states be used for small business purposes. Those rules expired in 2016 meaning that those dollars are no longer required to have a small business focus. **This puts the program, that enrolled lenders rely on to continue providing access to capital to underserved communities, at risk of dilution.** The LLR program is an incredible engine of small business growth that facilitates access to responsible capital and has allowed lenders to make thousands of loans to underserved small businesses which, in turn, help create and retain jobs and generate statewide economic growth. Given these positive impacts, it is of the upmost importance that this program remain focused on its original purpose – supporting California small businesses. To do that, **CalCAP should be housed in an agency with a specific focus on small business growth and economic development**.

Assembly Bill 474 (Reyes) transfers the portfolios and management of California’s Capital Access Loan Program for Small Businesses and the Collateral Support Program to the California Small Business Finance Center at the California Infrastructure and Economic Development Bank. We strongly support this relocation.

The Small Business Finance Center was created to serve as California’s single point of contact for economic development and job creation efforts. As federal small business program funding expires, it is important to transfer responsibility to a central entity whose mission emphasizes providing support to small and micro businesses.

Thank you again for introducing AB 474. If you have any questions regarding these requests, please feel free to contact Heidi Pickman, 415.992.4480 or at hpickman@microbiz.org.

Sincerely,



 Carolina Martinez, CEO