CHFA Community Development: Credit Enhancements & Direct Lending Webinar

6.27.2018
CHFA Overview

- **Mission**
  - Financing the places where people live and work in Colorado

- **Community Development Division**
  - Partner with lenders to provide financing resources to help businesses, nonprofits, and developers fulfill CHFA’s mission
Program History:

- CCS was created in 2012 using Federal funds allocated to Colorado from the SSBCI program.
- Federal oversight expired in 2017 after which State of CO became owner of funds.
- Program was extended for three years through 2020, with CHFA continuing in role of Program Manager for State.
Credit Enhancement: Cash Collateral Support

- **Program Impact:**
  - 245+ projects
  - $24.4M in deposits
  - $125.7M in loans supported
  - Utilized by over 40 different lending institutions
Program Overview: How does CCS work?

- CCS is designed to help small and medium sized businesses access capital that would otherwise be unavailable due to collateral shortfalls.
- Provides cash deposits up to 25% of the loan amount or $250,000 (whichever is less) held at the bank in support of borrowers’ loan. Exceptions to size limit are possible.
- Deposit is available to bank only in case of default, otherwise is returned to CHFA after term expires.
- Standard deposit term is three years with ability to request annual extensions afterwards.
Credit Enhancement: Cash Collateral Support

Program Process

- Lender must be approved for CCS support before loan is closed.
- Process typically takes two-to-three weeks:
  - Applications are approved in one week or less.
  - After approval it takes a week to establish bank account, wire funds, and prepare deposit agreement.
- Program is free to the lender; the standard borrower fee is 4% of deposit amount.
- Annual reporting, annual extensions after initial term.
Credit Enhancement: Cash Collateral Support

- **CCS is flexible.**
  - CCS can be used to support start-up and existing businesses, as well as non-profits.
  - CCS can be used to support loans for working capital, equipment, commercial real estate, inventory - almost any legitimate business expense.

- **Program Documents**
  - All CCS documents have been updated, please ensure you are using the most recent copies, which can be found here: https://www.chfainfo.com/business-lending/Pages/forms-CCS.aspx
Credit Enhancement: Cash Collateral Support

Example: Commercial Real Estate

- CRE Purchase of $1,000,000
- Borrower has $100k for 10% equity*
- Lender has 75% LTV policy for CRE, max loan amount of $750K
- Gap of 15% of project ($150k) exists, preventing project from proceeding

*Minimum required by CHFA for most projects
Credit Enhancement: Cash Collateral Support

- Example: Commercial Real Estate continued
  - CHFA Provides $150k CCS Deposit.
  - Lender now has $750k collateral from CRE and $150K deposit, allowing for a $900k loan for 90% of total project.
  - Borrower pays 4% on $150k deposit, or $6,000, which covers the 3 year initial term. Additional fees for annual extensions after that.
Example #2: Brewery Equipment Loan

- Existing brewery required $465k in new equipment for a new, second location.

- Business sufficient equity to cover buildout costs and provide 10% equity on equipment, but not enough to offset lenders LTV policy on special use EQ.

- CHFA provided a 25% deposit ($105k), allowing project to move forward.
Credit Enhancement: Cash Collateral Support

Example #2: Brewery Equipment Loan

<table>
<thead>
<tr>
<th>Collateral</th>
<th>Value</th>
<th>Bank Margin</th>
<th>Bank Policy Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>EQ</td>
<td>$465,000</td>
<td>65%</td>
<td>$302,000</td>
</tr>
<tr>
<td>CHFA Deposit</td>
<td>$105,000</td>
<td>100%</td>
<td>$105,00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$407,000</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Credit Enhancement: Colorado Credit Reserve

Program History & Impact:

- CCR was created in 2009 using State funds.
- Starting in FY2016 CCR receives $400,000 in annual funding from Colorado State Budget.
- CCR has been used to support 2,700+ loans for $102M in lending, and has supported over 21,850 jobs.
CCR: Participation Agreement

Unlike CCS, lenders must sign a participation agreement and create loan loss reserve account before registering loans into CCR.

CCR Participation Agreement explains program requirements and obligations of participating lenders.

CCR requires much less documentation, and loans are registered after they are issued.
CCR: The Process

- Lender closes a loan, collecting 1% borrower fee and signed borrowers waiver at closing.
- Lender registers loan with CHFA by submitting proof of 1% fee deposit, borrower waiver, and completed registration form. Lender has 30 days after loan closing to register loan.
- CHFA reviews registration items to ensure eligibility, processes registration and deposits State funds.
- Lender can then use pooled funds to cover losses on any registered loan.
## Credit Enhancement: Colorado Credit Reserve

### CCR State Match

<table>
<thead>
<tr>
<th>Loan Amount</th>
<th>$1-$10,000</th>
<th>$10,001 - $65,000</th>
<th>$65,001 - $250,000</th>
<th>$250,001 - $500,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>CCR Match</td>
<td>20%</td>
<td>Fixed at $2,000</td>
<td>3%</td>
<td>$7,500</td>
</tr>
<tr>
<td>Borrower Fee</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
</tbody>
</table>
Direct, SBA 504, Rural Development

- CHFA provides commercial real estate loans to existing small businesses and non-profits across Colorado
- Lender Benefits
  - CHFA can pay 1% referral fee
  - Bank retains business’s other accounts and relationship
  - Bank can provide construction financing
- Customer Benefits
  - 20 year fully amortized term loans
  - Fixed rates 4.99% – 5.85%
  - Lower down payment requirement of 10-15%
- Getting Started
Questions?
Thank You!

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