REQUEST FOR APPROVAL

To: **Rachel Machi Wagoner**
Director

From: **Matt Henigan**
Deputy Director

Request Date: December 14, 2021

Decision Subject: Approval of Financial Revisions to the Recycling Market Development Zone Loan Program Eligibility Criteria

Action By: December 21, 2021

Summary of Request

This Request For Approval (RFA) requests approval of financial revisions to the Recycling Market Development Zone Loan Program Eligibility Criteria, to incorporate Senate Bill 155 several loan policies and protocol, into the criteria. A subsequent RFA will consider Project Eligibility Criteria revisions.

Background and Analysis

Background

The RMDZ Loan Program is posted on the Internet at www.CalRecycle.ca.gov/rmdz/loans and began funding loans in 1993. The program offers low-interest loans to recycling manufacturers to primarily finance equipment to produce recycled-content products, thus diverting waste materials from landfills.

Statutory Authority

- Senate Bill 2310 (Bergeson, Statutes of 1990, Chapter 1543,) was enacted on September 30, 1990. SB2310 authorized the RMDZ loan program.
- Assembly Bill 1583 (Eggman, Statutes of 2019, Chapter 690) was enacted on October 9, 2019. SB1583 established the Statewide Commission on Recycling Markets and Curbside Recycling (Section 7, PRC 42005(a), and extended the loan program sunset date to July 1, 2031 (Section 8, PRC 42023.1(l)).
- Senate Bill 155 (Public resources budget trailer bill, Statutes of 2021, Chapter 258, sections 37 – 39) was enacted on September 23, 2021. SB155 eliminated various loan program requirements and added a funding priority for circular recycling loans.
- Senate Bill 170 (Public resources budget bill, Statutes of 2021, Chapter 240, section 91) was enacted on September 23, 2021. SB170 allocated state general funds of $25,000,000 to the RMDZ Subaccount in FY 2021-22. An additional $25,000,000 is anticipated in FY 2022-23.

- Public Resources Code (PRC) contains the RMDZ Loan Program statutes in sections 42023.1 – 42025.

Loan Program Eligibility Criteria

- The RMDZ Eligibility Criteria of 2018 was last approved on December 20, 2018 and is posted on the internet at https://www.calrecycle.ca.gov/RMDZ/Loans/
- Changes to the RMDZ Eligibility Criteria are shown below.
- The complete revised RMDZ Eligibility Criteria of December 2021 is shown in **Attachment A.**

Senate Bill 155: Changes to Public Resources Code

Senate Bill 155 was enacted on September 23, 2021. The bill made the following changes to Public Resource Code.

- **PRC section 42023.1(f)**: The department may expend the moneys in the subaccount to make loans to local governing bodies, private businesses, and nonprofit entities within recycling market development zones, or in areas outside zones where ~~partnerships exist with other public entities to assist local jurisdictions to comply~~ making the loan will benefit a local jurisdiction or assist a local jurisdiction in complying with Section 40051.

- **PRC section 42023.4(a)**: A loan made pursuant to Section 42023.1 shall be subject to all of the following requirements:

  (1) The terms of an approved loan shall be specified in a loan agreement between the borrower and the department. The loan agreement shall include a requirement that the failure to comply with the agreement shall result in any remaining unpaid amount of the loan, with accrued interest, being immediately due and payable. Notwithstanding any term of the agreement, a recipient of a loan that the department approves shall repay the principal amount, plus interest~~. on the basis of the rate of return for money in the Surplus Money Investment Fund at the time of the loan commitment interest~~. The department shall establish the loan interest rate as low as possible to make projects feasible and post the interest rate on its internet website. All money received as repayment and interest on loans made pursuant to this section shall be deposited in the subaccount.

  ~~(2) The term of a loan made pursuant to this section shall be not more than 10 years when collateralized by assets other than real estate, or not more than 15 years when partially or wholly collateralized by real estate.~~

  ~~(3)~~ (2) The department shall approve only those loan applications that demonstrate the applicant's ability to repay the loan. ~~The highest priority for~~

~~funding shall be given to projects that demonstrate that the project will increase market demand for recycling the project's type of postconsumer waste material~~.

(3) Priority for funding shall be given to projects for circular recycling programs that result in the product being recycled into a product that is also recyclable, as determined by the department, or that has a minimum lifespan of 10 or more years. The department shall establish project eligibility criteria and make it available to the public in order to achieve the intent of the Legislature.

(4) ~~The department shall not finance more than three-fourths of the cost of a project or two million dollars ($2,000,000), whichever is less.~~ A loan shall not be provided for a project that will result in the production of fuels or energy through transformation, engineered municipal solid waste conversion, or other disposal activities.

SB155: Changes to RMDZ Eligibility Criteria

1. **Loan Amount**
   History: The maximum loan amount was statutorily increased from $1,000,000 to $2,000,000 in 2000.

   Change: ~~$2,000,000 or 75% of total project cost, whichever is less~~. The loan amount will be determined by staff analysis of the loan applicant's overall need, financial capacity, and cash flow ability to repay.

   Rationale:
   - The loan cap will be replaced by a "Borrower Concentration Limit" which caps the maximum loan amount to any one borrower at 20% of the outstanding loan portfolio plus available funds, i.e. FY 2021-22 $12 million and FY 2022-23 $17 million. This allows larger loans to be considered and still limits a concentration in loan funds to any one applicant or recycling industry segment.
   - SB155 deleted the maximum loan amount to allow for larger loans {PRC 42023.4(a)(4)}.
   - SB155 intent is to provide CalRecycle with greater flexibility to fund loans to circular economy recycling manufacturers and divert more materials from landfills.
   - The Financial 5-C's of Credit process thoroughly analyzes the borrowers need and loan amount.
   - Project and equipment costs have been increasing the past several years, sometimes exceeding the current $2,000,000 individual loan and $3,000,000/$5,000,000 multiple loan caps.
   - Remove the loan caps to allow the proper amount to be financed.
   - Higher loan amounts are needed to finance commercial real estate.

2. **Matching Funds**

History: Matching Funds has been in statute since inception of the RMDZ loan program in Fiscal Year 1993-94, when the first loan was funded.

Change: ~~The department shall not finance more than three-fourths of the cost of a project or two million dollars ($2,000,000), whichever is less.~~

Rationale:

- Borrowers often do not have adequate cash to fund a 25 percent match. Requiring such a contribution diminished working capital (cash) available to pay for future operating expenses or make loan payments. Applicants cash contributions are now predicated on availability, and adequacy of working capital as assessed in an analysis of financial information.
- SB155 removed the statutory loan amount limitation of “three fourths of the cost of a project” requirement. This is also known as the 25 percent matching fund requirement {PRC 42023.4(a)(4)}.
- SB155 intent is to provide CalRecycle with greater flexibility to fund loans to CE recycling manufacturers and divert more materials from landfills.
- Loan Prospects sometimes had difficulty coming up with the matching funds, especially new start up and expanding businesses.
- Requiring a 25% cash match often depleted a company’s working capital position, weakening its ability to meet ongoing operating expenses.
- This policy is replaced with the new Borrower Concentration Limit #6 below.

3. Loan Term

History: Since inception of the RMDZ loan program in 1993, most loans had either a 10-year term, or 15 years when partly or wholly secured by real estate. A few loans had shorter terms.

Change: ~~Term is up to 10 years when secured by business assets or up to 15 years when secured by real estate~~. <u>The term of a loan is based on the loan purpose (short-term, medium, or long-term) and the useful life of the loan collateral.</u>

Rationale:

- Any one borrower may have multiple loan needs (Working Capital, Onerous Debt, Equipment/Machinery, Commercial Real Estate). Each loan term should match the proposed usage of loan funds (Working Capital – Short Term 1-5 Years, Onerous Debt – 1-5 Years, Equipment 7-Years, Commercial Real Estate 15-20 Years). Such flexibility aligns customized loan structures, per borrower, based upon its funding needs, and its cash flow generation ability.
- SB155 removed the maximum loan term {PRC 42023.4(a)(2)}.
- SB155 intent is to provide CalRecycle with greater flexibility to fund loans to CE recycling manufacturers and divert more materials from landfills.
- The Financial 5-C’s of Credit thoroughly analyze the loan term, especially the 2nd C – Capacity/Cash flow. See #12 below.
- It is more prudent and justifiable to base the term of a loan on the purpose of the loan and the useful life of the collateral, than the standard 10 or 15-year term limits.

4. Loan Interest Rate

History: Beginning in 1993 the loan interest rate fluctuated and was equal to the state Surplus Money Investment Fund (SMIF). During this time, the rate was as low as 1.86 percent in 2003, and the high was 6.49 percent in 2000. When a loan was approved and funded, interest rate was fixed at the SMIF rate. In 2008, the loan interest rate was fixed at 4.00 percent and was no longer linked to the SMIF rate. The rate has remained at 4.00 percent since 2008.

Change: ~~4 percent, fixed for the term of the loan~~. The loan interest rate will be as low as possible to make projects feasible. Interest Rate Pricing per borrower will be determined based on the riskiness of repayment (as analyzed pursuant to the 5-C's of Credit), and interest income needed to pay program administrative expenses. The interest rate is posted on the RMDZ loan program home page at https://www.calrecycle.ca.gov/RMDZ/Loans/

Rationale:

- Loans should be priced based upon the riskiness of repayment. Borrowers with strong financial positions should receive our best rate (currently 4%), and weaker borrowers should be charged higher rates (5-8% as an example). The 5-Cs of credit analysis process allows us to differentiate the riskiness of any one borrower, and leads to a fair rate of interest being charged.
- SB155 removed the SMIF interest rate basis {PRC 42023.4(a)(1)}.
- SB155 intent is to provide CalRecycle with greater flexibility to fund loans to CE recycling manufacturers and divert more materials from landfills.
- The Financial 5-C's of Credit thoroughly analyze the loan amount, especially the 2nd C – Capacity/Cash flow.
- The loan interest income is needed to pay program administrative expenses, and fund new loans.

5. Location

History: Since inception of the RMDZ Loan Program in 1993, all loans have funded projects that are located within the boundaries of an RMDZ. RMDZ's are commercial properties zoned for recycling manufacturers. Local RMDZ Zone Administrators are available to provide business, technical, permit assistance, and have designated commercial property siting for new and expanding recycling manufacturers. All local jurisdictions can apply to CalRecycle for an RMDZ designation.

- Change: The department may expend the moneys in the subaccount to make loans to local governing bodies, private businesses, and nonprofit entities within recycling market development zones, or in areas outside zones where ~~partnerships exist with other public entities to assist local jurisdictions to comply~~ making the loan will benefit a local jurisdiction or assist a local jurisdiction in complying with Section 40051.

The Criteria will be updated to state: "Projects must be located in California and preferably be in a CalRecycle designated Recycling Market Development Zone. To determine if your business is in an RMDZ, search RMDZ Maps on the Internet at https://www2.calrecycle.ca.gov/BizAssistance/RMDZ/Zones/. Local RMDZ Zone Administrators are available to provide business, technical, permit assistance, and have designated commercial property siting for new and expanding recycling manufacturers. All local jurisdictions can apply to CalRecycle for an RMDZ Designation (for more information see https://www.calrecycle.ca.gov/rmdz/faq."

Rationale:

- CalRecycle was allocated $25 million of state general funds this fiscal year 2021-22 and $25 million in fiscal year 2022-23. State funds must be available throughout the state, not restricted to specific locations. The statutory location language was updated to more clearly state this.
- Presently, most of the local jurisdictions that are not presently designated RMDZ's have voluntarily chosen not to participate in the RMDZ program, primarily due to lack of available commercial properties for manufacturing.

CalRecycle Policies – Rescind and Incorporate into the RMDZ Eligibility Criteria

Loan staff desires to rescind several policies by updating them and incorporating them into the RMDZ Loan Eligibility Criteria.

6. **Borrower Concentration Limit** **~~Multiple Loan Policy~~**

History: The Multiple Loan Policy was last revised on May 31, 2017.

Change: ~~A borrower and its related entities may receive more than one RMDZ loan, but may not have more than $3,000,000 principal outstanding on all RMDZ loans. A borrower may not have more than $5,000,000 outstanding on all RMDZ and GHG loans.~~ A borrower may have one or multiple of loans (Short, Medium, Long Term), but will be limited to a combined amount not to exceed 20 percent of the outstanding performing loan portfolio plus available funds for new loans (Borrower Concentration Limit). The CalRecycle Director reserves the right to consider exceptions to the borrower concentration limit on a case-by-case basis.

Rationale:

- Essentially allows larger loans to be considered and still limits a concentration in loan funds to any one applicant or recycling industry segment. Can be adjusted based upon fund availability and targeted recycling sectors
- SB155 removed the maximum loan amount of $2,000,000 {PRC 42023.4(a)(4)}.
- SB155 intent is to provide CalRecycle with greater flexibility to fund loans to CE recycling manufacturers and divert more materials from landfills.
- The Financial 5-C's of Credit thoroughly analyze the loan amount, especially the 2nd C – Capacity/Cash flow, 3rd C – Capital, and 4th C - Collateral.
- The existing policy caps the maximum borrowing under the RMDZ Program at $3,000,000.
- The new maximum borrowing limit is now calculated based upon 25% of available RMDZ loan funds (funded and available). This formula mirror images the process used by the FDIC and banks to determine maximum loan limits based on capital (loan funds in CalRecycle's case), henceforth limiting concentrations to any one borrower based on overall available funds. The table below outlines the ceiling based on available funds:

BORROWING LIMIT	FY 2021-22	FY 2022-23
Performing RMDZ Loans	$23,404,285	$60,830,285
Available RMDZ Funds	$12,426,000	
Available State Funds	$25,000,000	$25,000,000
Total	$60,830,285	$85,830,285
Limit Percentage	20.00%	20.00%
Limit Amount	**$12,166,057**	**$17,166,057**

- The maximum amount per borrower will be assessed individually using the 5 C's of Credit Analysis and routed through the credit approval process not to exceed the Limit Amount as determined in the above table.

7. Guarantor Policy

History: The guarantee policy was last revised on August 31, 2015.

Change: ~~A guarantee is required from any person, or business, owning 20 percent or more of the applicant business. Key management person(s) may be required to personally guarantee the loan regardless of their percentage of ownership. This would occur when it is determined that the manager(s) has significant control over the business, the manager is necessary for the success of the business, or when a business has weak credit.~~ Business and/or personal guarantee requirements will be determined based on the loan applicant's financial risk of repayment (i.e. Ability to Repay).

Rationale:

- The Financial 5-C's of Credit thoroughly analyze the need for guarantor(s) or not, especially the 3rd C – Capital of the guarantor(s).

8. Not Taking a Single Family Residence Policy

History: The Not Taking A Single Family Residence policy originated on October 20, 1999. At that time, a loan defaulted and the state foreclosed on the borrower's primary residence. The owners and loan guarantors were allowed to rent the home until they found other accommodations that occurred within several months.

Change: ~~A borrower's single-family residence is not to be taken as loan collateral~~.

Rationale:

- An owners Single Family residence (equity) remains the mainstay of their overall net worth. Perfecting a lien is done to mitigate risks uncovered in the Loan Analysis Process (the 5 Cs) and improve the overall collateral position. Such a lien perfection benefits in three ways: 1) locks in a cash resource that ownership could use to support the business, 2) walls off other lenders from tapping said equity, and 3) could be used as a repayment source in the event the loan defaults.
- This policy will be rescinded, because the separate section on loan collateral will now allow a borrowers' single-family residence to be taken as loan collateral.
- The Financial 5-C's of Credit thoroughly analyze the loan amount, especially the 4th C – Collateral.

- A borrower's primary residence as loan collateral provides a greater incentive to ensure business and loan success.
- The equity in a borrower's primary residence may be needed to obtain sufficient collateral.
- Smaller business sometimes need the equity in the owner's residence to provide adequate loan collateral.

9. **Collateral**
History: Collateral is required.

Change: Collateral is required and may include equipment, inventory, accounts receivable, commercial <u>and personal</u> real estate <u>(including single family residences)</u> ~~(typically excluding personal residences~~, vehicles, and other assets. ~~retirement accounts, foreign accounts receivable, and liquid assets)~~. <u>Collateral will include assets funded with loan proceeds.</u>

Rationale:

- All loans will be secured.

Update existing RMDZ Loan Eligibility Criteria

10. **Commercial Real Estate Purchase Cap of $1,000,000**
History: The use of loan funds to purchase real estate was capped at $1,000,000 in 2008 when the interest rate decreased to 1.90 percent, and many borrowers wanted to refinance or purchase real estate at the low rate.

Change: ~~Loan funds may be used to purchase real estate up to $1,000,000.~~

Rational:

- This is merged into the above Collateral description.
- Better allows the purchase of real estate, improving borrowers ability to obtain and maintain permits, and eliminates facility rent increases
- The Financial 5-C's of Credit thoroughly analyze the appropriate amount of loan funds to purchase commercial real estate, especially the 4^{th} C – Collateral.
- Real estate is good collateral because the value generally increases, provides long-term location viability whereas landlords may sell the real estate or increase lease payments, and it's not cost feasible to repossess leasehold improvements funded by the loan.
- Borrowers that own the facility real estate may have more control to obtain and maintain permits.
- Borrowers that own the facility real estate are not subject to rent or lease increases, thus improves their ability to repay the loan.

11. **Schedule of Fees**
History: The loan application fee was decreased from $500 many years ago, to relieve this monetary barrier to apply for a loan.

Change:

- <u>Preliminary application fee: $-0-</u>

- Application fee $300
- Closing Points: 0.5% of the loan amount.

Rationale

- Removes the $300 fee for preliminary applicants, should result in more applications.
- Preliminary loan applications can be submitted and processed at no charge, to remove the cost barrier to apply. This hopefully will result in more full applications being submitted and payment of the $300 application fee.
- Preliminary applications are quick and easy to process because of a simplified application and receipt of financial statements from loan prospects.
- The department shall establish and collect fees for applications for loans authorized by this section. The application fee shall be set at a level that is sufficient to fund the department's cost of processing applications for loans. In addition, the department shall establish a schedule of fees or points for loans that are entered into by the department, to fund the department's administration of the revolving loan program {PRC 42023.1(I)}.

Protocol – Document and incorporate into the RMDZ Loan Eligibility Criteria

Loan staff recommend to add existing protocol into the RMDZ Loan Eligibility Criteria.

12. Financial Analysis

A. Ability to Repay

History: This has been in statute, now will be stated in the RMDZ Loan Eligibility Criteria.

Change: Add this into the criteria. <u>The department shall approve only those loan applications that demonstrate the applicant's ability to repay the loan.</u> *{Public Resources Code section 42023.4(a) (2)}*.

Additionally add:

- <u>The borrower's ability to repay is the first source of loan repayment. The formula (PV, N, and I = PMT) considers the loan amount (PV), number of payments (N), and interest rate (I) to calculate the monthly payment (PMT). The monthly payment is analyzed against the borrower's historical and projected financial capacity and cash flow.</u>
- <u>In addition, see the financial 5-C's of Credit, shown below.</u>

B. Preliminary Loan Inquiries

History: The Six Loan Eligibility Questions originated in 2007. The intent was to quickly identify if a business inquiring about the RMDZ loan program might be eligible or not.

Change: Add this into the Criteria: <u>Preliminary loan inquires will be evaluated based on the Six Loan Eligibility Questions (SLEQ) and the loan prospects</u>

<u>financial statements. The SLEQ determine the loan prospects readiness to apply for a loan and are the most commons reasons for loan decline.</u>

<u>The SLEQ are:</u>

1. <u>Location (Physical Project Address)</u>
2. <u>Secretary of State Registration (California)</u>
3. <u>Customers (product buyers names and locations)</u>
4. <u>Feedstock (type, quantity, supplier names and locations)</u>
5. <u>Manufacturing Process (current and proposed)</u>
6. <u>Products (Recycled-content products are recyclable, or has a minimum lifespan of 10 or more years).</u>

Rationale

- Ability to repay is required {PRC 42023.4(a)(2)}.
- The SLEQ represent the six most common reasons a business is not ready to apply for a loan and are also the primary reasons for loan decline. Discussion with the loan prospect early in the process provides positive and honest feedback.
- Businesses with a location expedites permit approval.
- Businesses must be registered with the California Secretary of State to conduct business in California.
- Loan prospects must have identified customers to buy the products, which generates the first source of loan repayment.
- Loan prospects must have adequate sources of feedstock to recycle.
- The manufacturing process must be performed by the loan prospect, not contracted out, to have control of the recycling manufacturing process.
- Products must contain waste material feedstock that was generated in California.

C. Full Loan Application – Financial 5-C's of Credit.

History: Loan staff has practiced the 5-C's of Credit since 1993 to determine a loan prospect's financial ability to obtain and repay a loan. Loan Committee reviews staff's credit presentations, using the 5-C's of credit.

Change: Add this into the Criteria. <u>In addition to the SLEQ, full loan applications will be evaluated based on the Financial 5-C's of Credit, which are the commercial loan industry standard to analyze and underwrite loans.</u>

5-C's of Credit

1. <u>Character (Experience of the business, owners, and management)</u>
2. <u>Capacity / Cashflow (1st source of loan repayment)</u>
3. <u>Capital / Guarantors (2nd source of loan repayment)</u>
4. <u>Collateral (3rd source of loan repayment)</u>
5. <u>Conditions (Loan document terms and conditions)</u>

Rationale

- Some existing loan policies conflict and restrain staff from making quality loans under the 5-C's of credit analysis. This RFA requests to rescind those loan policies by updating and incorporating them into the RMDZ Financial Eligibility Criteria.

- The Commercial Loan Industry uses the 5-C's of Credit as the standard financial analysis (Credit Analysis) process to determine if a loan should be approved or denied. A Credit Analysis is used to determine the risk associated with making a loan. The scope, and satisfaction of these 5 Credit Standards is typically assigned to a Chief Credit Officer (in CalRecycle's Case the Staff Loan Officer Supervisor) who's tasked with addressing the credit risk of loan applicants, manage risk components, and implement safeguards (guardrails) to ensure that quality loans are being made, and that potential losses through collection efforts are minimized.

  The five C's of credit, are a very detailed quantitative and qualitative analysis process which weighs all risk factors, resulting in Loans that are sound financially, collaterally, and structured via terms and conditions, resulting in loans which have a high probability of being paid in an orderly fashion. The process itself is excellent at eliminating poor prospects, and revealing weaknesses of each applicant. While the process is not entirely full proof, it is the implementation of such a process and oversight by the Staff Loan Officer Supervisor (through the Loan Unit Staff) that leads to sound loans being approved, all within the risk criteria established.

  Listed below is a condensed explanation of each of the 5-C's of Credit and how they are analyzed.

  <u>5-C's of Credit Financial Analysis</u>

  1. **Character** - Summarizes a borrower's overall trustworthiness, personality and creditability. Measures Ownership, Management, and potential Guarantors integrity, honesty, work experience, industry experience, education, management skills, background, etc. Historical performance is the best predictor of the future, and evaluating such information allows the Loan Unit to see how the applicant has handled the business as well as personal financial affairs. This is where we scrutinize weaknesses in management and uncover the succession plan of key employees. This one area alone plays a significant role in determining credit eligibility.

  2. **Capacity/Cash flow of the business**– This is the first source of loan repayment. Measures if a business is generating sufficient cash flow (cash) to support its business expenses, service existing/future debt obligations, and provide ownership salaries sufficient to support personal expenses and debts. Examining the financial data (Income Statement, Balance Sheet Changes, Uniform Cash Flow, etc.) is an excellent indicator of the borrower's reliability to make payments, and provide credibility to future financial projections. This is deemed the Primary Source of repayment for a loan.

  3. **Capital of the guarantor(s)** – This is the second source of loan repayment. Demonstrates the borrower's level of commitment.

Measures the amount of cash investment (retained earnings, stockholder capital) the company has invested/retained in the business (aka “skin in the game”). It also identifies where a Business could seek added capital to replenish its cash position when Losses are incurred. Examining the Businesses Balance Sheet and the Personal Financial Statements of owners reveals what added capital sources (cash, investments, asset conversion, equity holdings, credit lines, etc.) could be tapped by the business to replenish its cash position (effectively covering future expenses and loan payments). Such an analysis is paramount to determining when loan guarantees are appropriate, and what added business or personal assets may be need to be pledged as collateral. This is deemed the Secondary Source of repayment for a loan.

4. **Collateral** – This is the third source of loan repayment. Demonstrates a borrower’s willingness to secure his level of commitment. Collateral are asset(s) a business or its owners are willing to pledge to secure a loan. The collateral itself can include the asset being financed (equipment or working capital). Collateral helps to define the term of a loan (years paid), but essentially provides a third resource to recuperate unpaid loan amounts (achieved through asset seizure and sale by the lender). Real estate is good collateral because the value general increases, especially when improvements are made. This is deemed the Tertiary Source of repayment for a loan.

5. **Conditions** in the Loan Agreement - Defines the purpose of the loan, the amount involved, how loan funds will be used, financial data quality and reporting, successor planning, etc. This process allows the loan unit to shore up any credit risks uncovered through the evaluation process.

   Collectively, the above listed categories of the credit analysis process leads a trained Loan Officer to reach a decision as to the approval worthiness of an applicant. Ideally, the Loan Unit would like to lend to applicants who are exemplary (strong in every section). Realistically this is not the case. All or a majority of applicants we see are manufacturing entities who are start-ups or in the early stages of development (1-5 years). Their weaker financial positions, along with operating in an industry segment (recycling) that is unknown to many traditional Federal Deposit Insurance Corporation (FDIC) banks leads to a dead end when it comes to financing alternatives.

   CalRecycle’s Loan Programs proactively fill this need, however, the quality of applicants we are likely to entertain are weaker, requiring creative solutions to shore up credit weaknesses. This 5 C’s Credit Analysis process helps Loan Officers construct these loans, within the protocol established by the Senior Staff Loan Officer. This risk mitigation process results in solutions that typically lead to funding high quality loans.

Attachment

A) RMDZ Loan Program Eligibility Criteria December 2021.

Legal Review

Legal Counsel, Shelly Bromberg, is not aware of any significant legal issues related to this RFA.

Recommendation

Staff recommends approval of the RMDZ Loan Eligibility Criteria to address SB155 financial statutory changes and update loan policies and protocol.

Director Action

On the basis of the information and analysis in this Request for Approval and the findings set out herein, I hereby conditionally approve the financial revisions to the RMDZ Loan Program Eligibility Criteria December 2021.

This approval is subject to:

> Posting the RMDZ Loan Program Eligibility Criteria December 2021 on the department website.

I further direct staff to conduct all acts necessary to incorporate the revised criteria in the administration of the RMDZ loan program.

Rachel Machi Wagoner Director	Dated