ADOPTED November 22, 2020
AMENDED March 11, 2020

CLIMBER Fund Product Design Presentation

11/22/2020

Approved by the CLIMBER Oversight Board, subject to availability of funds

Proposed CLIMBER FUND Products

CLIMBER Product Type	Lender Type	Program Structure and Rules	Meets CLIMBER Loan Terms
Direct Lending Capital	Non-Depository CDFIs & Non-profit Lender	• Lending capital in the form of low interest loan @2% to originator • Can fund up to 100% of originated loans • Lender has to pay at least 80% of capital back to CLIMBER • Lender can charge borrower paid fees of .5 to 1% • If lender returns more than 80% of the capital they keep half the difference over 80% • Need for fund paid fee of 5% or higher to underserved businesses	Yes
CLIMBER Credit Enhancement	Bank/Credit Union CDFI & Non-profit Lender	• 10 to 15 percent pooled Loan Loss Reserve Contribution (bonus for loans to underserved demographics) or up to 20% dedicated collateral, no borrower fee • Accessible after Lender undertakes collection activity • CLIMBER Fund deposits are interest free but must be paid back to state at the end of the CLIMBER Program	Yes
Loan Participation	Bank/Credit Union CDFI & Non-profit Lender	• Fund will purchase 80% of Loans Originated by Lender • No borrower fees • Lender can charge interest rate of 4.25 to 6.5% to borrower on retained share of loan • Purchased part of loan must be Pari passu with retained loan regarding collateral • . The originator retained portion of CLIMBER Loans which are participated can also use CLIMBER Credit Enhancements if the loans are to targeted segments.	Yes

Proposed CLIMBER FUND Interest Rates and Fees for CLIMBER Compliant Loans

Reference point: *Wall Street Journal Prime Rate* was 3.25% as of 8/21/20

	Loan Term			
Fixed Borrower Interest Rates by Product	**1-2 year or Revolve**	**3 year**	**4 year**	**5 year**
Direct Lending Capital	3.45%	3.60%	3.75%	3.90%
CLIMBER Credit Enhancement	2.45%	2.60%	2.75%	2.90%
Blended Borrower Rate on 80% Participated Loan	2.45%	2.60%	2.75%	2.90%

	Loan Term			
Borrower Origination Fees Paid to Lender (excludes fees to cover the cost of originating the loan)***	**1-2/r year**	**3 year**	**4 year**	**5 year**
Direct Lending Capital	.5%	.75%	1%	1%
CLIMBER Credit Enhancement	0%	0%	0%	0%
Loan Participation	0%	0%	0%	0%

	Loan Term			
APR by Borrower (excludes packaging fees)***	**1-2/r year**	**3 year**	**4 year**	**5 year**
Direct Lending Capital (DLC)	3.94%	4.10%	4.26%	4.31%
CLIMBER Credit Enhancement (CLCE)	2.45%	2.60%	2.75%	2.90%
Loan Participation (LP)	2.45%	2.60%	2.75%	2.90%

***Lenders can charge a fee of up to 2% that must only cover directly incurred closing costs and be reasonable and customary for the services performed and must be consistent with those fees charges on the lenders similarly sized non-CLIMBER commercial loans.

Proposed CLIMBER FUND Loan Terms

Term Name	Summary	Details/Notes
Loan Amount	$30,000 to $500,000	Recommend keeping full statutory range
Length of Term	Revolving/1 to 5 years	Up to lender to decide
Use of Funds/Definition of working capital	See later slide for details	Statement by borrower on use of funds included in note/loan close docs
Payment Frequency	Monthly	
Payment Deferment	Up to 1 year on principal and interest	3 months automatic deferral of principal at borrower discretion Lender can offer up to 6 months deferral of principal Need approval from CHFA to go beyond 6 month deferral of principal
Amortization	Full level to 20% balloon	Need approval from CHFA to not fully amortize
Borrower APR	2.45 to 4.31%	Fixed but varies with length of term and product
Prepayment Penalty	None	
Borrower Origination Fee Paid to Lender	0% to 1% (deducted from loan disbursement)	Varies with product type and term of loan
Ability to Refinance Existing Debt	See later slide for details	Yes (minimum 2 to 1 ratio of new to refinanced debt) 50 50 with CHFA approval
Collateral	To be proposed by lender	Need approval from CHFA if no collateral
Personal guarantee	To be proposed by lender	Need approval from CHFA if no guarantee

Rules for Refinancing Existing Debt

1) Making regularly scheduled interest and principal payments on mortgages, loans, and existing debt or paying off existing debt that is due within 90 days is considered a working capital use of CLIMBER Loan proceeds and is not considered to be refinancing.
2) CLIMBER Loans can be used for refinancing per the following terms
   a) The debt being refinanced must be incurred on or after July 1, 2019.
   b) Any refinanced loans including both new and existing debt must be pari passu with regard to security (e.g. collateral and guarantees) held by the original, refinanced debt. Except that LOCs that are refinanced by a lender that is not the lender on the original loan may not conform to the security pari passu requirement.
   c) Lines of credit (LOC) are a unique case and those that meet a) and b) above but not d) below can be refinanced by taking the unpaid balance and turning it into a CLIMBER Term Loan
      i) The bank must also maintain a LOC with the borrower with at least the amount of the original line of credit that was refinanced as a term loan or at 80% of the full original amount of the LOC whichever is larger.
      ii) All three product types (direct lending capital, loan participations and credit enhancement) can be used for the refinancing of a LOC into a term loan.
      iii) The lender can not charge fees for re-establishing the new LOC after an existing LOC was refinanced into a CLIMBER Loan

Rules for Refinancing Existing Debt – Slide II

d) All other debt types aside from LOCs, including credit cards and term loans, can be refinanced under the following conditions and subject to a) and b) above

i) Only via the credit enhancement product (i.e. the lender must use its own capital not CLIMBER Fund investor capital)

ii) The APR being refinanced to must be at least 5% less than the interest rate on the refinanced loan.

iii) The lender must provide new credit via a CLIMBER loan at a rate equal to at least $2 for every $1 refinanced unless CHFA approves an exception of a $1 to $1 ratio. This new credit may be an LOC.

iv) No debt associated with a federally funded loan program can be refinanced. Per 1) CLIMBER Loan Proceeds could be used to make regularly scheduled debt payments including on federal loans.

v) If the loan being refinanced had an origination fee of more than 3% or a prepayment penalty of more than 3%, no fee other than packaging fees can be charged on the CLIMBER refinancing. Note that CDFI's cannot use the direct lending product, only the credit enhancement product to refinance except for Line of Credit, so this might be redundant.

vi) The term on the CLIMBER Loan must be at least as long as the remaining term on the refinanced debt unless CHFA permits an exception.

vii) If a borrower demonstrates that it uses its credit card to pay   monthly operating expenses which would be considered working capital uses [for example 1/12 of annual operating costs] and pre-COVID the borrower had the cash to pay these monthly expenses and reduce the credit card balance to zero each month, making these monthly payments is considered a working capital use of CLIMBER proceeds and not a refinancing. However, if the borrower has accumulated credit card balances that exceed 1/12 of operating expenses and wishes to pay this balance off with a CLIMBER Loan this would be considered a refinancing and is subject to the rules around re-financing

viii) Subject to all of the rules above, lenders are allowed to refinance their own or other lenders debt.

Rules for Refinancing Existing Debt – Slide III

3) CLIMBER Loans will need to be repaid first during any deleveraging efforts subject to some exceptions as approved by CHFA. [which in certain circumstances may increase the borrowers' overall borrowing costs (e.g., if any other debt has a higher rate of interest than the CLIMBER Loans)]

4) Overall lens...CHFA has some flexibility if the refinancing will help the business and not the bank. Are we ok with that?

Definition of Working Capital, Use of Proceeds and Borrower Certification

Definition of Working Capital

- Proceeds are required to be used for working capital which includes inventory, marketing, payroll, refitting workspace for new social distancing guidelines, operating and emergency maintenance, property taxes, utilities, rent, supplies, making regularly scheduled interest and principal payments on mortgages, loans, and existing debt or paying off existing debt that is due within 90 days and other working capital uses

- Refinancing of an existing loan is not permitted except as explicitly in the CLIMBER Rules

- The loan applicant will be required to describe anticipated use of funds when they apply and certify that the use of funds will not violate terms.

Borrower Certifications on Use of Funds

CHFA to develop appropriate guidelines and present to CLIMBER Board, taking the following ideas and others into account

Borrower Certification on Use of Funds

Borrower will attest that loan proceeds will be used for working capital as defined by CLIMBER rules

Borrower Certification on Prohibited Uses of Funds

Borrower will attest that loan proceeds will not be used:

- to repay delinquent federal or state income taxes unless the Borrower has a payment plan in place with the relevant taxing authority;
- to repay taxes held in trust or escrow (e.g., payroll or sales taxes)
- to reimburse funds owed to any owner, including any equity injection or injection of capital for the business continuance;
- to purchase any portion of any ownership interest of any owner of the business
- to place under the protection of the Program prior debt that is not covered under the Program and that is or was owed by the Borrower to the Intermediary or to an affiliate of the Intermediary without approval per the rules of the CLIMBER Program;
- To refinance a loan previously made to the Borrower by the Intermediary or an affiliate of the Intermediary that existed prior to the COVID-19 Crisis without approval by CHFA per the CLIMBER refinancing rules;
- to enroll or refinance the unguaranteed portions of SBA-guaranteed or other federal loans; or
- to pay severance to any employee (CHFA may waive this restriction in writing).

Direct Lending Capital

- Who Can Use this Option: Non-Depository CDFIs and Non-Profit Lenders
- How It Works:
  - CLIIMBER Provides lending capital in the form of low interest loan @2% to originator
  - Can fund up to 100% of originated loans
  - Lender has to pay 80% of capital back to CLIMBER depending on losses plus interest on full principal
    - If lender can return more than 80% of the capital they keep half the difference over 80%
  - Lender can charge origination fees (deducted from loan disbursement) per schedule on other slides
  - Need to identify a source of funds to have a "fund paid" fee averaging 6% to lender.   Higher fees will be paid on loans to underserved borrowers *[[looking to find source of capital and finalize exact fee schedule]]*
- What it Addresses for Lenders:
  - Lack of capital/liquidity to make new loans by directly funding the loans
  - Credit risk by allowing non-profit lenders to not be obligated to pay back full loan to fund
  - Loan margin by allowing larger fees and higher APRs

***Underserved demographics include rural or minority, women, veteran-owned businesses and businesses located in low to moderate income communities or economically distressed or underserved non-metropolitan areas.

CLIMBER Credit Enhancement

- Who Can Use this Option: CDFI, Non-Profit Lenders, Banks, Credit Unions
- How It Works:
  - CLIMBER Provides 15 to 20% Contribution, (per table in next slide)
  - Contribution can be used either as pooled loan loss reserve or dedicated cash collateral at lender's choice
    - Lender can mix and match and choose different option for each CLIMBER Loan
  - CLIMBER Contribution available to lender after lender undertakes collection activity
  - CLIMBER Contribution is interest free but unused amount must be paid back to state at program end
  - Only CLIMBER Loans can be registered for CLIMBER Credit Enhancement (CLCE) but CLIMBER Loans can also leverage the existing Colorado Credit Reserve (CCR) pools as a secondary reserve
  - The originator retained portion of CLIMBER Loans which are participated can also be registered against CLCE per table below
  - What it Addresses for Lenders:
    - Credit risk by providing pooled loan loss reserve
    - Provides extra risk capital to absorb loan losses so should make regulators more comfortable

Anti-abuse Provisions

- Lender must certify that it would not have made this loan at the terms being offered without the credit enhancement and explain why using its underwriting and interest rate policy.
- CHFA must review and approve lender explanation
- The program may be curtailed if CHFA determines it is not driving loans that would not otherwise be made.

CLIMBER Credit Enhancement Contribution Table

Loan Size	\$30,000 to \$74,999	\$75,000 to \$249,999	\$250,000 to \$500,000
Standard Contribution to Pooled Loan Loss Reserve (PLLR) (loan <u>is not to</u> underserved demographic)	10% (~\$2,000)	10% (3%)	10% (\$7,500)
Max Contribution to PLLR (Loan <u>is to</u> underserved demographic)***###	15%	15%	15%
CLIMBER Contribution for Dedicated Cash Collateral	Up to 20% depending on shortfall Size (case by case basis)		
CLIMBER Contribution for retained portion of participated Loan (either Pooled LLR or Dedicated CC) only for Loans to underserved demographics as defined below***	8%	8%	8%

***Underserved demographics include rural or minority, women, veteran-owned businesses and businesses located in low to moderate income communities or economically distressed or underserved non-metropolitan areas.

###For each underserved demographic a borrower belongs to up to two categories the PLLR gets an extra 2.5% contribution up to a maximum extra of 5% or 15% total. Example a veteran and minority owned business gets 15%.

Loan Participation

- Who Can Use this Option: CDFA, Non-Profit Lenders, Banks, Credit Unions
- How It Works:
    - CLIMBER Fund will purchase 80% of loans originated by lender
    - Lender can charge higher interest rate to borrower (per schedule above) on its retained share of loan.
    - Purchased part of loan must be pari passu with retained loan regarding collateral/guarantees.
    - The originator retained portion of CLIMBER Loans which are participated can also be registered against CLIMBER Credit Enhancement.
- What it Address for Lenders:
    - Lack of capital/liquidity by purchasing a big portion of lender originated loans.
    - Credit risk by allowing lenders to sell off some portion of loan and using CLCR to created pooled loan loss reserve for un-participated portion.
    - Loan Margin by allowing origination fees and the lender to charge higher interest in the unsold portion of the loan.

Interest Rates and APR by Product Types

		Number of Years in Loan Term			
		2	3	4	5
	Rate to Fund Plus CHFA (2%)	2.00%	2.00%	2.00%	2.00%
Loan Participaton	Rate Paid to Lender	4.25%	5.00%	5.75%	6.50%
	Blended Borrower Rate 80% Participation	2.45%	2.60%	2.75%	2.90%
	Allowed Lender Origination Fee	0.00%	0.00%	0.00%	0.00%
	Loan Amount	$ 30,000	$ 30,000	$ 30,000	$ 30,000
	Final Outstanding Balance	$ -	$ -	$ -	$ -
	Monthly Payments	($1,282.15)	($867.16)	($660.72)	($537.73)
	Borrower APR	2.45%	2.60%	2.75%	2.90%
Direct Lending Capital	Borrower Interest Rate	3.45%	3.60%	3.75%	3.90%
	Allowed Lender Origination Fee	0.50%	0.75%	1.00%	1.00%
	Loan Amount	$ 30,000	$ 30,000	$ 30,000	$ 30,000
	Final Outstanding Balance	$ -	$ -	$ -	$ -
	Monthly Payments	($1,295.42)	($880.39)	($674.02)	($551.14)
	Borrower APR	3.94%	4.10%	4.26%	4.31%
CLIMBER Credit Enhanceme	Borrower Interest Rate	2.45%	2.60%	2.75%	2.90%
	Allowed Lender Origination Fee	0.00%	0.00%	0.00%	0.00%
	Loan Amount	$ 30,000	$ 30,000	$ 30,000	$ 30,000
	Final Outstanding Balance	$ -	$ -	$ -	$ -
	Monthly Payments	($1,282.15)	($867.16)	($660.72)	($537.73)
	Borrower APR	2.45%	2.60%	2.75%	2.90%