The SOUTHLAND *Spring 2009*

Helping Small Business Grow • A Publication of the Southland Economic Development Corporation

A PCLP Program to like? Maybe.

At the recent NADCO "Ironman Contest" in Washington DC (Board Meeting/Government Relations Conference/Management Conference back to back to back), a new proposal for the PCLP program was discussed.

OK, I'm listening, my person still firmly planted in the back of the turnip truck.

For the uninitiated, PCLP is that hybrid of the SBA 504 Loan Program wherein participants enjoy the privilege of approving loans without SBA scrutiny in exchange for establishing a loan loss reserve in the amount of 1% of the loan amount of each loan. Should a PCLP loan result in a loss, the PCLP lender is responsible for the first 10% of that loss. In our current economic environment, it's easy to see how losses could be significantly higher than 1% of the loan. So those wiley PCLP lenders held a meeting of their exclusive, new trade association and came up with "PCLP Reform Now!"

The new proposal appears to be based on the conclusion that the current PCLP program

Jim Davis, President, Southland EDC and NADCO Director At-large

is not effective because the high costs (of the loan loss reserve?) preclude a large number of CDCs from participating.

In Fiscal 2009, less than 6% of CDCs have participated.

The proposal recommends a higher level of lender oversight and a reduction in the loan loss reserve (it's now called an upfront fee, not a loss reserve) of just 25 basis points vs. the current program's 100. The proposal arrived at the 25 basis point

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figure, it appears, based on historical loss rates for the program, without taking into account our current recession-depression and the 30%+ decline in commercial property values in many parts of the country.

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President's Message, *continued from page 1*

It is reasoned, I believe, that such a reduced cost would increase participation in the program and make it more viable in the long run.

No wonder they want to change the program now — before the losses hit.

OK, I'm listening, my person still firmly planted in the back of the turnip truck. I'm still struggling with taking on risk when we get such great service from the Sacramento Processing Center, not to mention the worst economic conditions in decades, with commercial real estate values in a free fall.

But, as Bill Murray once said, "we're willing to learn". And there it was: the proposal allows current PCLP lenders to trade their existing loan loss reserve, at 100 basis points, for a one time fee of 25 basis points.

The "historic" loss rates used to arrive at the 25 basis points are the result of a decade of economic growth and constant increases in real estate values, not what we have experienced for the past year.

I would bet that over the next 24 months, we will see a significant increase in the loss rate and find that the 100 basis point loss reserve will be inadequate to cover losses. No wonder they want to change the program now — before the losses hit. Right. Sorry folks, I'm still in the truck.

NADCO agreed to a modified version.

NADCO was asked to support this proposal and to assist in getting legislation passed to effect the program changes. The NADCO Board agreed to support a modified version: the 25 basis point fee would be acceptable for the first year of the program, with the fee thereafter adjusted annually to reflect the individual loss rate of each CDC participating; that lender oversight increase significantly, along the lines of bank oversight; that the new fee begin with new business, upon approval and implementation of the "new PCLP" program and not be used as a bail-out (son of TARP?) of current loan loss reserves held by PCLP lenders, which may very well prove to be wholly inadequate to cover losses over the next year or two.

While the devil is in the detail, I think the NADCO-supported proposal has a lot to like about it. I don't think the 25 basis points will be adequate but the notion of the fee based on each lender's loss performance makes a lot of sense and may return the program to a tool to finance higher quality credits.

The NADCO-supported proposal has a lot to like about it.

We've been advocating increased lender oversight for some time and feel it will only make the program better, while lowering borrower costs.

Would we participate in such a program? Probably, though I'll answer that question if/when the changes are made and when this recession-depression is some distance behind us.

Southland Welcomes New Staff Member Dana L Kelsch

Dana L. Kelsch

Dana L. Kelsch has joined Southland as an Administrative Assistant.

She has several year's experience in the lending business and is eager to learn more about the SBA loan process.

Dana is a team player and her bright smile enhances our beautiful new suite.

Dana's interests include walking on the beach, playing lacrosse, and running marathons.

Matt VanderMeer, Welcomes New Son, Cordell Matthew

Matt VanderMeer (Loan Officer) and his wife Shannon welcomed their baby son, Cordell Matthew, last December. He was 8 pounds, 20 inches. What a cutie!

Cordell Matthew VanderMeer with big sister Scarlett

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