

Minutes
of the
Special Meeting of Board of Directors of
The Industrial Development Authority of the County of Maricopa
(the "Authority")

Date: April 22, 2020, 3:00 p.m.

Place: Ryley Carlock & Applewhite
One North Central Avenue, Suite 1200
Phoenix, Arizona

Presiding: Ronald L. Westad

Present: Ronald L. Westad, Rebecca Burnham, Jeremey Stawiecki,
Andrew M. Cohn, Jim Rounds, Maria Spelleri, Lisa A. James
and Ronald J. Castro, Jr. – all Board Members participated by
telephone

Absent: Steve Bales

Executive Director: Shelby L. Scharbach

Administrators: Janis L. Larson and Kathleen Jakubowicz

Business Development
Officer: Gregg Ghelfi (by telephone)

Attorney: William F. Wilder (by telephone) and John J. Fries of Ryley
Carlock & Applewhite

Guests: Supervisor Jack Sellers, Cris Arzaga, and Julie Arvo
MacKenzie (all guests attended by telephone)

Mr. Westad called the Special Meeting of the Board of Directors of the Authority to order at 3:03 p.m., noting the presence of a quorum.

**1. DISCUSSION AND ACTION AS DETERMINED REGARDING A
PROPOSAL FROM PRESTAMOS CDFI, A DIVISION OF CHICANOS POR
LA CAUSA, TO PROVIDE PAYCHECK PROTECTION PROGRAM (PPP)**

FORGIVABLE LOANS TO UNDERSERVED BUSINESSES IN LOW INCOME COMMUNITIES.

On the telephone in support of the proposed project were Jose Martinez, President of Prestamos CDFI, and David Adame, President and CEO of Chicanos Por La Causa.

Mr. Westad explained the request before the Board is from Prestamos CDFI, a division of Chicanos Por La Causa, for a \$10 million 0% interest loan in order to enhance their ability to provide Paycheck Protection Program (PPP) forgivable loans to underserved businesses in low income communities.

Ms. Spelleri recused herself from the discussion, as she is employed by Chicanos Por La Causa.

Mr. Martinez said timing is of the essence in terms of addressing the issue and the crisis with small businesses. Prestamos CDFI has been certified as an SBA lender, and is trying to find a way to address the crisis with the businesses they serve, which are typically underbanked and unbanked businesses. As of yesterday, Prestamos had a pipeline of \$5 million in loans, and as of just prior to the start of this meeting, the pipeline has grown to \$6.9 million, with the smallest request being in the amount of \$2,223. The loan requests run up to their maximum limit of \$250,000.

Mr. Cohn asked if any of the businesses reflected in the \$6.9 million pipeline have made an application for the PPP program through another financial institution. Mr. Martinez said he was not aware of any; however, that would be a question covered in their due diligence when working through the application process. A small percentage of businesses that applied with other banks and have not heard back have been instructed by Prestamos to either remove their application from the other bank or remove their application from Prestamos.

Mr. Martinez said Prestamos recognizes there are risks with this transaction, i.e. SBA compliance and capital risk.

Mr. Martinez explained that Prestamos is a long-time SBA lender, but also has outsourced compliance services through Prudent Lenders for a number of years. Prestamos also utilizes specialized software that has a number of compliance checks built into the system. The system allows Prestamos to make sure all businesses are qualified and meet the required standards.

With respect to capital risk, Mr. Martinez said Prestamos will establish a \$200,000 cash reserve dedicated to making loan payments to the Authority during any negative cash flow period. Prestamos will rely on the cash reserve during the 18-month payback period due to any loan defaults pending payment from SBA Guarantee.

Mr. Adame said CPLC is a member of GPEC and GPL, and has been working with both organizations on the COVID-19 recovery. In the first round of the release of government funds, Arizona received approximately \$5 billion, versus Colorado that received \$7 billion. Part of the reason Colorado received more funds was Colorado has over 160 lenders, while Arizona has 60 banks. Prestamos is trying to make sure that Arizona and, particularly, Maricopa County receives their share of the funds.

Mr. Westad asked how many applications were processed by Prestamos during the first round of PPP loans, and what was the dollar amount of those applications? Mr. Martinez said they processed one loan for \$154,000 before the system shut off.

Mr. Adame added that ensuring Prestamos was qualified took some time, and the first round of money was used up within 15 days. Prestamos is hopeful to be in a better position when the second round of funds is released.

Mr. Cohn asked if Prestamos/CPLC will be using any of their own cash for the PPP loan program in advance of any proceeds they may receive from the Authority. Mr. Martinez said the first \$4.5 million will be their own funds.

Mr. Cohn asked what dollar amount does Prestamos believe they will be deploying? Mr. Martinez said they believed they could deploy \$25 million.

In response to a question from Mr. Cohn regarding what other companies have Prestamos reached out to for funds requests, Mr. Adame explained that Prestamos/CPLC have reached out to all the banks that are “friends and family” and two insurance companies for additional monies for this program. They are now down to Blue Cross Blue Shield of Arizona, a member of the Federal Home Loan Bank of San Francisco, and Wells Fargo Bank, CPLC’s primary business bank.

Mr. Cohn questioned why would Wells Fargo give the funds to Prestamos if they could make their own fees on the transactions? Mr. Adame explained it is a matter of capacity. All of the banks across the country are inundated with PPP loans. Wells Fargo would like to work with Prestamos, in order to serve more of the smaller businesses, because the demand is so overwhelming.

Mr. Martinez added that Wells Fargo has been an investor of theirs for many years and has already invested in CDFIs, and Prestamos works with many underserved small businesses.

Mr. Cohn asked how much was the financial ask from Blue Cross Blue Shield and Wells Fargo. Mr. Adame responded that the request from each company was for \$25 million, with the hopes they would actually receive at least \$10 million from each; however, they still don’t have an answer from either company.

Mr. Cohn asked how much cash does the Authority have on hand? Ms. Scharbach said just over \$20 million unrestricted; however, not all of that is liquid. Approximately 25 to 30% is liquid.

Ms. Burnham asked if there is any validity for the concern about discrimination claims? And, specifically, who will the loan recipients be? Mr. Martinez explained that as a CDFI, they are certified by the US Treasury specifically to serve businesses in low income communities and minority-owned businesses. That is essentially their target, but they do not exclusively lend to those targets, and are not suggesting they lend only to those targets in this case; however, over 60% of their lending must be within their market as approved by the US Treasury. Because Prestamos is a CDFI, they clearly market to businesses that are not able to receive financing, so they do not see any discriminatory process taking place in doing what they were approved to do. This is their normal customer base.

Ms. James asked what is the average loan request? Mr. Martinez responded \$63,181.

Mr. Stawiecki asked if Prestamos is a preferred SBA lender, so they are not required to have a loan review, and questioned the capacity of Prestamos if they are not a preferred lender. Mr. Martinez explained that they are a delegated authority lender under the PPP program. As the SBA rolled out the PPP program, they made all their SBA lenders delegated authorities. Mr. Martinez explained that when they uploaded their first loan, it was approved within minutes. The software program Prestamos uses allows them to upload batches of loans, so now they are working day and night for when the program opens back up. They are trying to get as many loans boarded as possible so that they are able to batch upload the loans as soon as the program reopens. Mr. Martinez said because of the set asides for smaller institutions, they are in the same pool with banks of under \$10 million in assets.

Mr. Stawiecki asked if there is any truth to the government buying paper back so that the banks could redeploy capital in order to ease the capital constraints on some of the smaller banks? Mr. Martinez said the Federal Reserve came out with a product and a term sheet that is currently only available to depository institutions. The language in the term sheet said they are looking to open that up to beyond depository institutions, including CDFIs.

Mr. Westad asked, of the \$25 million request made to Blue Cross Blue Shield and Wells Fargo, were those requests for 0% interest? Mr. Martinez said yes, either 0% or as low as possible.

Mr. Westad asked, as far as existing lines of credit, what is Prestamos/CPLC's total accessible cash available today. Mr. Martinez explained the \$4.5 million includes existing lines of credit that can be used.

Mr. Westad said since this request represents approximately 40% of the Authority's net unrestricted assets, and on an unsecured basis, the Authority would have to

consider all available legal avenues to ensure the documentation of the potential transaction affords the Authority as many protections as possible. Similarly, based upon the balance sheet of Prestamos, a \$30 million CDFI, the \$10 million injection would represent about 25% post injection of their assets. Mr. Westad said he is struck by the request at 0% considering Prestamos will make 5% on every loan funded through the program. Given the relatively short life of those assets, assuming they are fully refundable in two months, the annualized yield is approximately 30% on a given loan. The \$10 million outlay on the part of the Authority would be very substantial.

Ms. James said she understands through the proposal, that many of the businesses which are being served by CPLC/Prestamos don't have the infrastructure or education to apply through any other route. Are there any efforts to assist these small businesses to go another route, i.e. filling out applications - rather than providing them loans. Mr. Martinez said they would like to do both. They would like to provide the education along the way to get them through the application process. They have talked to other banks about referrals, and there haven't been excited about getting more referrals in the program, and most of the stuff we have is much smaller than what the banks are seeing, and no guarantees they could get the loans through.

Mr. Cohn suggested the Authority should receive some level of interest on the loan, and said he was uncomfortable in using such a large percentage of the Authority's unrestricted proceeds that may need to be made available for other circumstances that may arise in today's unique period of time.

Mr. Cohn suggested the Authority may want to consider a loan of \$2.5 million to \$3 million, the amount of which could be adjusted in the future. Mr. Cohn said he thought the program was appropriate and these small businesses need to be addressed in a timely manner. Mr. Cohn said it was his opinion the Authority should be paid some interest on the monies.

Mr. Adame said according to the terms of the program, Prestamos can charge 1%, so if the Authority prefers to charge an interest rate, he would suggest no more than 1%. Some of the \$4.5 million that would be used by Prestamos has a higher cost of capital, so some of the funds will be used for the reserve build up and some will be used to cover the negative arbitrage because of the higher cost of capital. Any monies they make on the program will go back into the community since they are a nonprofit organization. Mr. Adame countered with, if the Authority wants to charge 1% interest, at least have it built in, for example \$5 million with another \$5 million once they can demonstrate the money gets used up right away.

Mr. Castro joined the meeting at 3:33 p.m.

MOTION: Mr. Cohn made a motion to approve a \$3,000,000 loan contribution with 1% interest rate and require a smaller cash reserve fund for the establishment of timely payments.

There was no second and the motion died.

Mr. Wilder suggested any of the Authority's monies used for this program should be used with Maricopa County and/or the State of Arizona.

MOTION: Ms. Burnham made a motion to approve a loan contribution of \$10,000,000 at 0% interest rate to be used only in Maricopa County.

There was no second and the motion died.

MOTION: Mr. Cohn made a motion to approve a \$3,000,000 loan contribution with 1% interest rate and require a smaller cash reserve fund for the establishment of timely payments, to be used only in Maricopa County.

Ms. James seconded the motion.

The motion failed by a vote of 2-4. Ms. Burnham and Mr. Cohn voted aye. Ms. James and Messrs. Stawiecki, Castro and Rounds voted nay. Ms. Spelleri recused herself and did not vote.

2. CALL TO THE PUBLIC.

No members of the public commented.

ADJOURNMENT

With no further business to come before the Authority, upon motion made and duly seconded, the Special Meeting was adjourned at 3:41 p.m., without objection.


