ARB'S HEAVY-DUTY VEHICLE AIR QUALITY LOAN PROGRAM

In partnership with the State Treasurer's Office (STO), the Air Resources Board (ARB) has developed an innovative heavy-duty vehicle air quality loan program to provide financial assistance to truckers affected by the Proposed Statewide In-Use Truck and Bus Rule and the Proposed Heavy-Duty Vehicle Greenhouse Gas Emission Reduction Measure. Implemented through the STO's California Capital Access Program (CalCAP), the core component of the loan program utilizes the leveraging power of loan guarantees to provide nearly $340 million in financing opportunities to qualified truckers. ARB funds will be used to guarantee loans for small trucking fleets that experience difficulties obtaining competitive rate loans in today's tight credit market. The target borrower is not a fleet owner with a poor credit profile and a high risk of loan default, but instead is the small fleet owner that just needs a little extra assistance to access financing at this time.

<u>Key Legislation</u>

Three pieces of recent legislation provide the initial program funding and basic framework for ARB's loan program:

- Assembly Bill 118 (AB 118; Chapter 750, Statutes of 2007) establishes the ARB's Air Quality Improvement Program (AQIP), which provides the loan program's initial funding allocation through a one-time 2008-2009 fiscal year State budget appropriation.
- Assembly Bill 109 (AB 109; Chapter 313, Statutes of 2008) expands AQIP to include revolving loans, loan guarantees, or other appropriate funding measures, thereby providing ARB the legislative authority to implement an air quality loan program.
- Assembly Bill 1338 (AB 1338; Chapter 760, Statutes of 2008) prescribes the basic air quality loan program criteria and prioritizes funding to trucking fleets with less than three vehicles, to fleet owners that demonstrate financial hardship, or to trucking fleets used in short-haul operations.

<u>The CalCAP Program</u>

Since 1994, participating financial institutions throughout California have used the CalCAP program to fund about 7,200 loans totaling about $1.3 billion for small businesses that fall just outside conventional underwriting standards. Through its proven and successful loan guarantee model, CalCAP has achieved a historical fund leveraging ratio of about seven-to-one with a loan default rate of about four percent. For ARB and for borrowers, this means that the total dollar amount of loans made with lender funds will be at least seven times greater than the funds ARB contributes to the program.

And just how does CalCAP's loan guarantee model work? Simply stated, the CalCAP is a form of "loan insurance" that can provide up to 100 percent coverage on loan defaults. Through CalCAP's Independent Contributor Program, ARB will contribute a small percentage of the loan principal for each qualified loan, approximately 14 percent, into a CalCAP loan loss reserve account (similar to a savings account) at the lending institution issuing the loan. As the lender enrolls more loans in the program, its loan loss reserve account grows. The lender is liable for any defaults on loans that it has enrolled in CalCAP, but these losses are reimbursable through its CalCAP loan loss reserve account.

With a historically low default rate, CalCAP's loan guarantee model provides a stable financing structure that enables lenders to provide competitive rate loans to borrowers that do not fit within conventional underwriting standards. Borrowers may also use available incentive grants as down payments in combination with their CalCAP loans to achieve better loan terms. While each lender will determine the interest rate for every loan it offers, ARB expects CalCAP lenders to offer interest rates in the range of 7 percent to12 percent to qualified truckers. The CalCAP program provides a win-win situation for the State and for truck owners---a proven program structure that is already in place to meet the demands for affordable financing in the trucking sector.

In addition to meeting ARB's program criteria, eligible borrowers must meet basic CalCAP requirements such as: 1) the trucking company qualifies as a small business (< 100 employees); 2) the trucking company generates less than $10 million in annual revenue; and 3) the trucking company must have a "primary economic" effect in California.

Eligible Borrowers

The target borrower for ARB's loan program is the "nearly-bankable" fleet owner unable to obtain affordable financing in today's tight credit market. The table below illustrates that portion of the credit risk spectrum that is the focus of the ARB's program. As an overlay to the CalCAP requirements described above, the fleet owner must also meet the ARB's basic program criteria, based on the requirements of AB 1338. Through the "financial hardship" criterion of AB 1338, ARB's program will expand eligibility to fleets with 10 or fewer vehicles, which will provide more small fleets access to credit within the program.

APPROXIMATE CREDIT RISK[1]

Credit Risk	FICO	Bankruptcy or Collection	Delinquent by 30 days	Delinquent by more than 60 days	Number of Years in Business	Loan-to-value of collateral (%)	Debt-to-income ratio (%)	Debt-to-worth ratio
GOOD	>720	N	N	N	>5	<60	<40	1:1
NEARLY BANKABLE	640-700	N	Y	N	3-5	61-70	41-70	3:1
POOR	<620	Y	Y	Y	<3	>70	>70	>3:1

Products Available for Financing

Loans issued by CalCAP lenders participating in ARB's loan program will be used to finance individual technologies or a combination of technologies to help fleet owners

[1] This table provides the anticipated credit risk profile for the "nearly-bankable" borrowers for which the program will provide loan access. The actual loan evaluation process will depend on the respective underwriting policies of participating financial institutions and may shift within today's changing economic climate.

comply with the two proposed on-road heavy-duty vehicle regulations. Potential products available for financing may range from about $5,000 to over $160,000 and include:

- ARB-verified PM and/or NOx exhaust retrofits.
- Used, lower-emitting trucks.
- SmartWay-approved energy efficiency retrofits (low-rolling resistance tires, aerodynamic skirting and fairings).
- New trucks equipped with SmartWay technologies.

While this list presents examples of the range of products eligible for financing, it is by no means prescriptive. The actual compliance path used by a particular fleet will determine what products a fleet owner finances.

How to Access CalCAP Financing

Truckers may access the ARB's loan program simply by contacting qualified CalCAP lenders participating in the ARB's Heavy-Duty Vehicle Air Quality Loan Program and completing a loan application. They may also work with their preferred truck dealers to coordinate financing through participating CalCAP lenders. The program utilizes a non-competitive process implemented on a first-come, first-served basis. Approximately 60 financial institutions throughout the State already participate in CalCAP, but ARB staff is developing a list of core CalCAP lenders that will specialize in ARB's loan program; this contact information will be available soon. The basic steps for a borrower to access CalCAP financing are:

- The truck/fleet owner contacts a participating CalCAP lender to complete a standard loan application.
- If the fleet owner falls just outside the lender's conventional underwriting standards, the loan officer will evaluate the borrower's eligibility for CalCAP and offer CalCAP financing to qualified fleet owners.
- The fleet owner and the lender complete the traditional loan process and maintain the lender/borrower relationship throughout the term of the loan.
- Except for the small amount of extra information, the fleet owner will experience very little additional effort to participate in the CalCAP program when compared to traditional financing.

Next Steps

With the program structure in place, ARB staff has expanded its efforts to outreach to and educate CalCAP lenders, fleet owners, truck dealers, and retrofit equipment vendors and installers. Upon finalizing administrative and contractual requirements, loans through participating CalCAP lenders will be available to fleets starting in the spring of 2009. Additionally, ARB staff continues to evaluate other financing strategies beyond CalCAP in order to diversify program funding and implement the most effective and efficient loan program possible.

For more information regarding the ARB's loan program, please visit the website at:
http://www.arb.ca.gov/ba/loan/on-road/on-road.htm