CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY (Authority)

HELP II Programmatic Change

Resolution No. 2024-02

May 30, 2024

Executive Summary

BACKGROUND:

The Healthcare Expansion Loan Program II (HELP II or the Program) was established in 1995 and designed to provide low-cost financing for small and rural health facilities to fund capital needs, such as property acquisitions, construction, renovations, or equipment purchase. Since inception, the Authority has recommended various programmatic changes to HELP II, based on factors such as program demand, volatility of the interest rate market, and increased costs related to expansion projects.

In April 2015, to improve the program's overall competitiveness, the Authority increased the maximum cumulative loan amount from $1 million to $1.5 million and decreased the interest rate from 3% to 2%. In July 2021, the Authority increased the maximum cumulative loan amount from $1.5 million to $2 million and increased the maximum annual gross revenue eligibility requirement for small facilities from $30 million to $40 million.

Since the 2021 changes, HELP II has thrived; CHFFA closed an average of 8.7 loans per year and total loans averaged approximately $9.2 million per year. Factors that have contributed to the increased volume and amount of loans are rising housing market prices and the rise in federal interest rates. Commercial bank loan interest rates have increased from around 3% in 2021 to over 8% in 2023. HELP II borrowers have capitalized on CHFFA's low, 2% interest rate that has remained the same since 2015.

If loan closings continue at this rate, the Program fund balance will quickly deplete. As of March 31, 2024, the fund balance was $5,458,989, which accounts for nearly $8.5 million in loans that have been approved but not yet disbursed. Including the HELP II approval for May 2024, the fund balance will be further reduced to $4,258,989, which will only allow two HELP II borrowers to request the maximum loan amount of $2 million.

Based on this information, CHFFA's staff and the Authority's financial analyst, TAP International, Inc. (TAP), has analyzed the Program, the Program fund balance, and the effects of a proposed 1% increase in the interest rates to build the fund balance for the Program and have concluded that increasing the interest rate to 3% for new money loans and to 4% for refinancing loans is reasonable and warranted.

History

The original HELP was established in 1988 to assist small and rural health facilities and district hospitals in expanding and improving services to the people of California through low-cost loans. However, it soon ran into trouble as CHFFA took no security on the loans and there were no interest or initial fee charges. As such, the original HELP was discontinued in 1994. In 1995, HELP II was created to replace the original HELP with the same intent to assist health facilities but with more financial robustness to improve the longevity of the Program. In order to create this self-sustaining program, CHFFA established provisions to protect its loans, which included requiring collateral, establishing a 3% interest rate, and charging a one-time loan origination fee. The initial loan terms for the Program were a 3% interest rate, maximum loan amount of $300,000, and a maximum term of 10 years. The following chart shows the general progression of the HELP II programmatic changes that resulted from a number of factors, such as changes in market interest rates, availability of funds, and housing market prices increases.

Year	Maximum Loan Amount	Maximum Annual Gross Revenues[1]	Interest Rate	Maximum Term
1995	$300,000	$10 million	3%	10 years
1997	$500,000	$10 million	3%	15 years
1999	$400,000	$10 million	3%	15 years
2001	$400,000	$20 million	3%	15 years
2005	$500,000	$20 million	3%	15 years
2007	$750,000	$30 million	3%	15 years
2012	$1,000,000	$30 million	3%	15 years
2015	$1,500,000[2]	$30 million	2%[3]	20 years[4]
2021	$2,000,000[2]	$40 million	2%[3]	20 years[4]

[1] Maximum annual gross revenues eligibility requirement does not apply to rural health facilities and district hospitals.

[2] Maximum loan amount for refinancing loans remained at $1,000,000.

[3] Interest rate for refinancing loans remained at 3%.

[4] Maximum term for refinancing loans remained at 15 years.

The most recent programmatic changes were approved by the Authority in June 2021 by Resolution No. 2021-03. The changes authorized at that time remain the Program's current loan parameters, which are shown in the table below.

	Equipment & Furnishings	Refinance	Purchase, Construct, & Renovate Real Property
Interest Rate	**2%**	**3%**	**2%**
Loan Amount	**$25,000 - $2,000,000**	**$25,000 - $1,000,000**	**$25,000 - $2,000,000**
Loan Term	**5 years**	**15 years**	**20 years**

As previously mentioned, HELP II is a self-sustaining program; the Program's fund balance is strictly replenished with loan repayments of principal and interest. Historically, the HELP II fund balance has had more than sufficient funds to support numerous HELP II loans. However, with the number and amount of recently approved loans, the Program fund balance is critically low. A low fund balance is a paradox; it means HELP II is successful in completing its mission by assisting health facilities for their capital project needs, but it also means the Program could be in a position to postpone assisting more health facilities until funds are replenished or sufficient funds become available in the fund balance for submitted applications.

To alleviate some pressure on the fund balance, CHFFA staff and TAP considered lowering the maximum loan amount, limiting the number of loans approved on an annual basis, and raising the interest rate. Lowering the maximum loan amount would have put a burden on the borrower as increased costs of expansion projects would have required borrowers to seek additional, outside financing. CHFFA staff and TAP concluded raising the interest rate would be the most beneficial as it may slow down the demand for the Program while also providing more income to the fund balance. The analysis below, coupled with TAP's analysis attached to this staff report as Exhibit A, supports this recommendation.

Analysis

CHFFA and TAP have analyzed the effects of a 1% increase in the interest rate from 2% to 3% for capital needs and from 3% to 4% for refinancing of existing debt.

Question: Who are HELP II competitors and what are their interest rates?

Competitors of HELP II for small and rural health facilities include commercial bank loans and the Small Business Administration (SBA) 7a loan. Current commercial loan rates range from about 6.3% to over 10%. Rates vary based on the lending institution, type of loan, and the risk of the borrower. The current interest rate for the SBA 7a loan is 11.5% and has a $5 million loan amount maximum. Increasing the HELP II interest rate 1% would be about 4+% below commercial bank loans and 8.5% below SBA 7a loans, allowing for the Program to still remain competitive and attractive to eligible borrowers.

Loan Source	Rates (March 2024)
Commercial Bank (5-7-10 year loans)	6.92% - 6.87% - 6.78%
Commercial Mortgage-Backed Securities Loans (5-7-10 year loans)	7.07% - 7.02% - 6.72%
Small Business Administration (SBA) 7a Loan	11.5% (Prime+3%)
SBA 504 (10-20-25 year loans)	6.59% - 6.36% - 6.28%
Regional Banks/Credit Unions	6.82% - 10.50%
Life Insurance Companies	5.53% - 6.94%

Question: What are the possible effects of an increase of the HELP II interest rate on the fund balance?

The HELP II fund balance is affected by the volume of loans closed, the interest rates, and HELP II program income (repayment of principal and interest).

The table below provides a historical snapshot of a number of things including the number and amount of HELP II loans closed and the HELP II interest rate as compared to the Wall Street Journal (WSJ) Prime Rate. The WSJ Prime Rate is a consensus rate of the 30 largest banks.

The table illustrates that the HELP II interest rate has always been below the WSJ Prime Rate and therefore lower than commercial bank loan interest rates. In 2023, the difference between the WSJ Prime Rate and the HELP II interest rate was 6%, which was the widest margin since 2007 when it was a 5% difference. From 2009 through 2014, the margin was only 0.25% and the HELP II interest rate was lowered to 2% in 2015, which increased the margin relative to the WSJ Prime Rate. The margin continued to slowly increase over the next several years as the WSJ Prime Rate gradually increased while the HELP II rate was held constant. With the margin increasing to 6% in 2023, the amount of loans closed reached more than $13 million, the most in Program history.

This supports the notion that the wider the spread between interest rate margins, the more attractive HELP II loans are to borrowers and therefore increases the demand for HELP II loans.

Year	HELP II Loans Closed	Closed HELP II Loans Total ($)	HELP II Loan Rate[1]	WSJ Prime (Yearly Ave.)[2]
2005	6	2,182,000	3.00%	6.25%
2006	6	1,822,000	3.00%	8.02%
2007	16	8,360,081	3.00%	8.00%
2008	19	9,526,160	3.00%	4.88%
2009	15	7,878,000	3.00%	3.25%
2010	9	5,023,500	3.00%	3.25%
2011	10	4,943,661	3.00%	3.25%
2012	7	4,233,500	3.00%	3.25%
2013	10	6,582,682	3.00%	3.25%
2014	4	1,709,750	3.00%	3.25%
2015	7	3,056,736	2.00%	3.27%
2016	8	6,108,000	2.00%	3.52%
2017	6	3,828,494	2.00%	4.13%
2018	5	4,101,500	2.00%	4.96%
2019	6	3,413,054	2.00%	5.25%
2020	2	2,830,000	2.00%	3.50%
2021	5	6,196,145	2.00%	3.25%
2022	10	8,132,750	2.00%	5.02%
2023	11	13,138,039	2.00%	8.23%

[1] For construction, renovation, real property acquisition, and equipment loans. Refinancing loan rates at 3.0%
[2] Wall Street Journal reported Prime Rate. Yearly averages based on monthly closing interest rates.

As would be expected, as the amount of loans closed has increased, the Program fund balance has concurrently decreased.

Year	HELP II Loans Closed	Closed HELP II Loans Total ($)	End-of-Year Fund Balance ($)	Outstanding Loan Volume ($)
2005	6	2,182,000	18,235,411	23,057,113
2006	6	1,822,000	23,001,330	21,208,377
2007	16	8,360,081	19,640,538	25,816,558
2008	19	9,526,160	15,331,041	31,692,371
2009	15	7,878,000	12,373,489	36,307,902
2010	9	5,023,500	12,632,868	37,113,730
2011	10	4,943,661	15,319,975	36,324,114
2012	7	4,233,500	18,059,600	34,881,186
2013	10	6,582,682	17,781,941	36,253,734
2014	4	1,709,750	22,864,620	32,246,018
2015	7	3,056,736	26,323,090	29,075,491
2016	8	6,108,000	28,665,050	27,181,578
2017	6	3,828,494	12,812,094[a]	25,505,860
2018	5	4,101,500	14,443,513	24,723,233

Year	HELP II Loans Closed	Closed HELP II Loans Total ($)	End-of-Year Fund Balance ($)	Outstanding Loan Volume ($)
2019	6	3,413,054	14,763,057	25,503,161
2020	2	2,830,000	14,993,139	24,756,215
2021	5	6,196,145	29,089,025[b]	22,908,260
2022	10	8,132,750	21,861,208	30,757,164
2023	11	13,138,039	13,808,542	40,141,131
2024[c]	7	9,343,250	5,458,989	

[a] In 2017, $20M was removed from the HELP II fund balance to create the Lifeline Grant Program.
[b] In 2021, $10.4M in excess Lifeline Grant Program funds was returned to the HELP II fund.
[c] As of 3/31/2024. Includes loans pending, closing, and disbursement.

Only five months into 2024, CHFFA has already approved six loans. The May board meeting agenda includes one loan in the amount of $1.2 million, which would bring the current fund balance to a historic low of less than $4.3 million. Based on data from 2021-2023, at the current interest rate of 2%, the fund balance receives about $490,000 monthly or $6 million annually in income from loan principal and interest payments.

TAP analyzed the fund balance's historic and current withdrawals (loans closed) and deposits (program income) and tested various scenarios to find the optimal balance to sustain HELP II going forward. All scenarios can be found in Exhibit A. If the Program were to continue the number and amount of loans and at the current interest rate of 2%, CHFFA's ability to provide loans will be severely hindered by 2026, as shown on page 9 of Exhibit A.

The table below illustrates the most preferred scenario whereby demand has slowed to $8 million of loans closed. At $8 million loan closings per year, the fund balance will remain sufficient to provide loans through 2029. Increasing the interest rate to 3% for new money expansion projects may assist in slowing the demand for HELP II loans.

HELP II Fund Balance Estimates

Scenario: HELP II loan volume continues to be $8M per year

Year	Loans Closed	Program Income at 2.0% Loan Interest Rate	Fund Balance EoY at 2.0% Loan Interest Rate	Program Income at 3.0% Loan Interest Rate	Fund Balance EoY at 3.0% Loan Interest Rate	Program Income at 4.0% Loan Interest Rate	Fund Balance EoY at 4.0% Loan Interest Rate
2023	$13,138,039	$6,631,971	$13,808,542				
2024	$8,000,000	$6,799,663	$12,608,205	$6,799,663	$12,608,205	$6,799,663	$12,608,205
2025	$8,000,000	$7,359,663	$11,967,867	$7,439,663	$12,047,867	$7,519,663	$12,127,867
2026	$8,000,000	$7,919,663	$11,887,530	$8,079,663	$12,127,530	$8,239,663	$12,367,530
2027	$8,000,000	$8,479,663	$12,367,193	$8,719,663	$12,847,193	$8,959,663	$13,327,193
2028	$8,000,000	$9,039,663	$13,406,856	$9,359,663	$14,206,856	$9,679,663	$15,006,856
2029	$8,000,000	$9,599,663	$15,006,518	$9,999,663	$16,206,518	$10,399,663	$17,406,518

CHFFA staff also recommends increasing the interest rate for refinancing from 3% to 4% because CHFFA has typically kept a 1% difference between the new money interest rate and the refinancing interest rate so that expansion projects will continue to receive a better interest rate to promote increasing access to and expanding health care in California.

Recommendation

Staff recommends the Authority approve increasing the interest rate for property acquisition, construction, renovation, and equipment loans from 2% to 3%, and increasing the interest rate for refinancing loans from 3% to 4%. All other conditions of HELP II remain unchanged and in full effect.

Exhibit A

TAP International, Inc. HELP II Loan Interest Rate slideshow.

California Health Facilities Financing Authority

HELP II Loan Parameter Review

May 2024

Objectives of the Work

1. What are the current market rates for commercial loans?
2. What other borrowing vehicles are available for non-profit health care facilities?
3. What are the possible effects on the HELP II fund balance, if CHFFA were to raise the loan interest rates?
4. How have the Effective Federal Funds Rate increases affected commercial loan interest rates?

Summary Results

- At current yearly loan volume of $12M per year, the HELP II fund balance will not have a sufficient balance to continue with that volume of loans by 2025 (estimate).
- Limiting the HELP II yearly loan volume and increasing the interest rate can affect the HELP II fund balance by increasing the program income and the fund balance available for future loans.
- The Prime Rate and commercial interest rates have generally mirrored increases and decreases in the Federal Funds Rate.
- CHFFA HELP II interest rates are below current market rates by about 4+%.
- Raising HELP II interest rates to 3.0% or even 4.0% are viable options.

Question 1: What are the current market rates for commercial loans?

Current commercial loan rates range from about 6.3% to over 11%. Rates vary based on the lending institution, type of loan, and the risk of the borrower. HELP II loan rates are about 4+% below commercial loan rates.

Loan Source	Rates (March 2024)
Commercial Bank (5-7-10 year loans)	6.92% - 6.87% - 6.78%
Commercial Mortgage-Backed Securities Loans (5-7-10 year loans)	7.07% - 7.02% - 6.72%
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Life Insurance Companies	5.53% - 6.94%

www.commloan.com/commercial-mortgages/mortgage-rates
www.stacksource.com/commercial-mortgage-rates
www.sba.gov/partners/lenders
www.growthcorp.com/resources/interest-rate-history/
www.nerdwallet.com

Question 2: What other borrowing vehicles are available for non-profit health care facilities?

Other lending vehicles may be available to non-profit health care facilities depending on local programs and funding. Rates will vary depending on funding availability and the borrower.

Loan Source	Rates (Q1, 2024)	
Community Development Financial Institutions (For nonprofits, businesses, and community facilities)	7% - 9%	www.cdfi.org www.cdfifund.gov/about www.trufund.org
Infrastructure State Revolving Fund Program (state and local government entities)	4.78% in Jan 2024	www.ibank.ca.gov/loans
Nonprofits Insurance Alliance (Rates for NIAC members, up to $75K)	6.0% (Up to $50,000 loan)	insurancefornonprofits.org/nonprofit-loans-california/

The California Community Foundation also provides loans to CDFIs and nonprofits in Los Angeles as funding becomes available. Interest rates are not published.

Question 3: What are the possible effects on the HELP II fund balance, if CHFFA were to raise loan interest rates?

Calendar Year	HELP II Loans Closed	Closed HELP II Loans Total ($)	HELP II Loan Rate[1]	WSJ Prime (Yearly Ave.)[2]
2005	6	2,182,000	3.00%	6.25%
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[1] For construction, real property, equipment, renovation. Refinancing loan rates at 3.0%

[2] Wall Street Journal reported Prime Rate. Yearly averages based on monthly closing interest rates.

HELP II loan history generally shows that as the Prime Rate (WSJ or Wall Street Journal Prime) has increased, the volume of HELP II loans has also increased as the HELP II loan rate has become more attractive to eligible borrowers.

Question 3: What are the possible effects on the HELP II fund balance, if CHFFA were to raise loan interest rates?

Calendar Year	HELP II Loans Closed	Closed HELP II Loans Total ($)	End-of-Year Fund Balance ($)	End-of-Year Outstanding Loan Balance ($)
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2018	5	4,101,500	14,443,513	24,723,233
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2021	5	6,196,145	29,089,025[2]	22,908,260
2022	10	8,132,750	21,861,208	30,757,164
2023	11	13,138,039	13,808,542	40,141,131
2024[3]	7	9,343,250	5,458,989	

[1] In 2017, $20M was removed from the HELP II fund balance to create the Lifeline Grant Program.

[2] In 2021, $10.4M in excess Lifeline Grant Program funds was returned to the HELP II fund.

[3] As of 3/31/2024. Includes loans pending, closing, and disbursement.

HELP II fund balance is affected by the volume of loans closed, the interest rates, and the HELP II program income (repayment of principal and interest).

As the numbers of loans closed has increased, the fund balance has decreased.

Question 3: What are the possible effects on the HELP II fund balance, if CHFFA were to raise loan interest rates?

Issue:
- HELP II may not be able to continue loaning at the current loan volume once the end-of-year fund balance is below that estimated yearly loan volume and cannot be sufficiently supplemented by program income.

Test:
- For the purpose of this analysis, we will observe the forecasted effects to the HELP II fund balance at interest rates of 2.0%, 3.0%, and 4.0% and yearly loan volume of $12M, $10M, $8M, and $6M.

Assumptions:
- Commercial and government interest rates will not change substantially.
- HELP II interest rates will continue to be below commercial loan and SBA loan interest rates.
- HELP II program income from principal, interest, and other payments will be approximately $5.88M for 2024* plus estimated principal and interest payments from loans closed in 2023.
- Borrowers may not seek to pay off loans early, given 1-year CD rates are up to 5.00%**.
- Trends in interest and loan principal payments observed in 2024 will likely continue.

*12-month average over prior 29 months.
** https://www.nerdwallet.com/best/banking/1-year-cd-rates

Question 3: What are the possible effects on the HELP II fund balance, if CHFFA were to raise loan interest rates?

HELP II Fund Balance Estimates

Scenario: HELP II loan volume continues to be $12M per year

Year	Loans Closed	Program Income at 2.0% Loan Interest Rate	Fund Balance EoY at 2.0% Loan Interest Rate	Program Income at 3.0% Loan Interest Rate	Fund Balance EoY at 3.0% Loan Interest Rate	Program Income at 4.0% Loan Interest Rate	Fund Balance EoY at 4.0% Loan Interest Rate
2023	$13,138,039	$6,631,971	$13,808,542				
2024	$12,000,000	$6,799,663	$8,608,205	$6,799,663	$8,608,205	$6,799,663	$8,608,205
2025	$12,000,000	$7,639,663	$4,247,867	$7,759,663	$4,367,867	$7,879,663	$4,487,867
2026	$12,000,000	$8,479,663	$727,530	$8,719,663	$1,087,530	$8,959,663	$1,447,530
2027	$12,000,000	$9,319,663	($1,952,807)	$9,679,663	($1,232,807)	$10,039,663	($512,807)

With a yearly loan volume of $12M, **the HELP II fund balance will likely not have a sufficient balance to continue providing $12M/year in loans because the fund balance will be below $9M by the end of 2024.** Program Income, however, may be sufficient to help supplement the fund balance and provide loans through 2025, depending on the timing of principal and interest payments and assuming there will not be substantial early repayments of HELP II loans.

Question 3: What are the possible effects on the HELP II fund balance, if CHFFA were to raise loan interest rates?

HELP II Fund Balance Estimates

Scenario: HELP II loan volume at $10M per year

Year	Loans Closed	Program Income at 2.0% Loan Interest Rate	Fund Balance EoY at 2.0% Loan Interest Rate	Program Income at 3.0% Loan Interest Rate	Fund Balance EoY at 3.0% Loan Interest Rate	Program Income at 4.0% Loan Interest Rate	Fund Balance EoY at 4.0% Loan Interest Rate
2023	$13,138,039	$6,631,971	$13,808,542				
2024	$10,000,000	$6,799,663	$10,608,205	$6,799,663	$10,608,205	$6,799,663	$10,608,205
2025	$10,000,000	$7,499,663	$8,107,867	$7,599,663	$8,207,867	$7,699,663	$8,307,867
2026	$10,000,000	$8,199,663	$6,307,530	$8,399,663	$6,607,530	$8,599,663	$6,907,193
2027	$10,000,000	$8,899,663	$5,207,193	$9,199,663	$5,807,193	$9,499,663	$6,407,193

With a yearly loan volume of $10M, **the HELP II fund balance will likely not have a sufficient balance to continue providing $10M/year in loans as the fund balance will be at or below $8.3M by the end of 2025**. Program Income may be sufficient to help supplement the fund balance and provide loans through 2026, depending on the timing of principal and interest payments and assuming there will not be substantial early repayments of HELP II loans.

Question 3: What are the possible effects on the HELP II fund balance, if CHFFA were to raise loan interest rates?

HELP II Fund Balance Estimates

Scenario: HELP II loan volume at $8M per year

Year	Loans Closed	Program Income at 2.0% Loan Interest Rate	Fund Balance EoY at 2.0% Loan Interest Rate	Program Income at 3.0% Loan Interest Rate	Fund Balance EoY at 3.0% Loan Interest Rate	Program Income at 4.0% Loan Interest Rate	Fund Balance EoY at 4.0% Loan Interest Rate
2023	$13,138,039	$6,631,971	$13,808,542				
2024	$8,000,000	$6,799,663	$12,608,205	$6,799,663	$12,608,205	$6,799,663	$12,608,205
2025	$8,000,000	$7,359,663	$11,967,867	$7,439,663	$12,047,867	$7,519,663	$12,127,867
2026	$8,000,000	$7,919,663	$11,887,530	$8,079,663	$12,127,530	$8,239,663	$12,367,530
2027	$8,000,000	$8,479,663	$12,367,193	$8,719,663	$12,847,193	$8,959,663	$13,327,193
2028	$8,000,000	$9,039,663	$13,406,856	$9,359,663	$14,206,856	$9,679,663	$15,006,856
2029	$8,000,000	$9,599,663	$15,006,518	$9,999,663	$16,206,518	$10,399,663	$17,406,518

With a yearly loan volume of $8M, **the HELP II fund balance will likely have a sufficient balance to continue providing $8M/year in loans for the foreseeable future** as the end-of-year fund balance and program income are projected to increase in 2026 or 2027, depending on the HELP II loan interest rate.

Question 3: What are the possible effects on the HELP II fund balance, if CHFFA were to raise loan interest rates?

HELP II Fund Balance Estimates

Scenario: HELP II loan volume at $6M* per year

Year	Loans Closed	Program Income at 2.0% Loan Interest Rate	Fund Balance EoY at 2.0% Loan Interest Rate	Program Income at 3.0% Loan Interest Rate	Fund Balance EoY at 3.0% Loan Interest Rate	Program Income at 4.0% Loan Interest Rate	Fund Balance EoY at 4.0% Loan Interest Rate
2023	$13,138,039	$6,631,971	$13,808,542				
2024	$6,000,000	$6,799,663	$14,608,205	$6,799,663	$14,608,205	$6,799,663	$14,608,205
2025	$6,000,000	$7,219,663	$15,827,867	$7,279,663	$15,887,867	$7,339,663	$15,947,867
2026	$6,000,000	$7,639,663	$17,467,530	$7,759,663	$17,647,530	$7,879,663	$17,827,530
2027	$6,000,000	$8,059,663	$19,527,193	$8,239,663	$19,887,193	$8,419,663	$20,247,193
2028	$6,000,000	$8,479,663	$22,006,856	$8,719,663	$22,606,856	$8,959,663	$23,206,856
2029	$6,000,000	$8,899,663	$24,906,518	$9,199,663	$25,806,518	$9,499,663	$26,706,518

With a yearly loan volume of $6M, **the HELP II fund balance will likely have a sufficient balance to continue providing $6M/year in loans for the foreseeable future** as the end-of-year fund balance and program income are projected to increase.

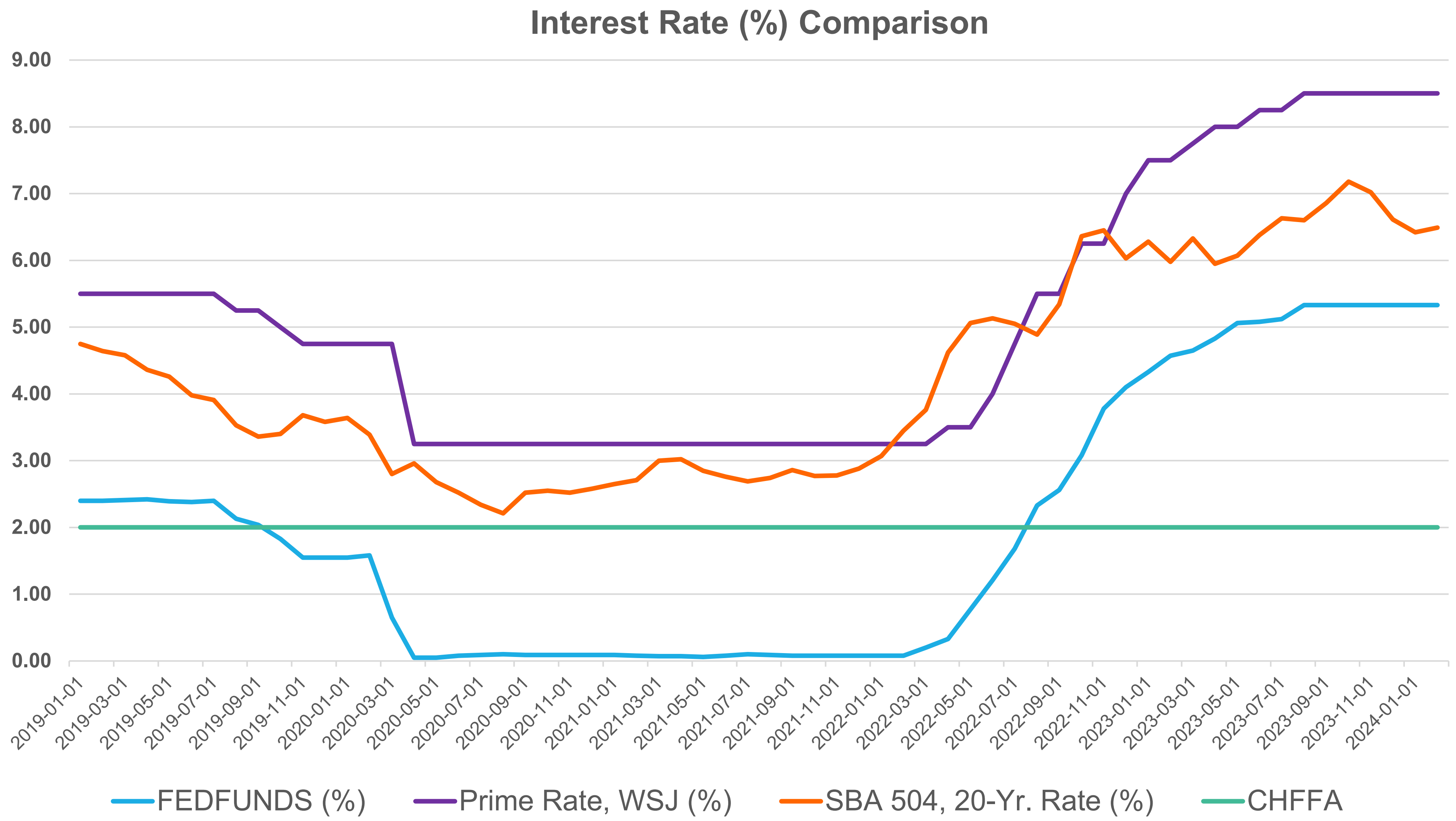
* Approximate average yearly HELP II loan volume, 2015 – 2023.

Question 4: How have the Effective Federal Funds Rate increases affected commercial loan interest rates?

- The Effective Federal Funds Rate (FEDFUNDS) is the rate set by the Federal Open Market Committee for banks to borrow funds from each other, which can act as the benchmark used by lending institutions to set other rates.
- The Prime Rate, set by individual banks, is the interest rate banks use as a basis to set rates for different types of loans. The Prime Rate is strongly influenced by the Effective Federal Funds Rate; each track the other closely with a separation of about 3.16%, on average, as seen on the following slide.
- The Wall Street Journal (WSJ) surveys 30 of the largest banks and publishes a consensus Prime Rate. Commercial loans will be influenced by the Prime Rate along with other factors such as the current market conditions for loans and the risks related to the individual borrower. In the following slide, the SBA 504 Small Business Association Loan rate is used as a sample of the commercial loan rate for comparison.

The CHFFA HELP II loan rate of 2.0% is below commercial market rates by about 4%.

Question 4: How have the Effective Federal Funds Rate increases affected commercial loan interest rates? (continued)



<u>SBA 504</u>: Small Business Association loan program for long-term fixed asset purchases

TAP INTERNATIONAL, INC.

TRAINING ANALYTICS PERFORMANCE

RESOLUTION NO. 2024-02

RESOLUTION OF THE
CALIFORNIA HEALTH FACILTIES FINANCING AUTHORITY
APPROVING A PROGRAMMATIC CHANGE FOR
THE HELP II LOAN PROGRAM

WHEREAS, the California Health Facilities Financing Authority (the "Authority"), a public instrumentality of the State of California, is authorized and empowered by the provisions of the California Health Facilities Financing Authority Act (the "Act") to provide secured or unsecured loans to participating health institutions to finance or refinance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing, or equipping of a health facility;

WHEREAS, the Authority established the Healthcare Expansion Loan Program II (the "Program") to issue loans to participating health institutions that meet the eligibility guidelines of the Program; and

WHEREAS, the Authority desires to adjust aspects of the existing Program with the purpose of enhancing access under the Program;

NOW, THEREFORE BE IT RESOLVED by the California Health Facilities Financing Authority as follows:

Section 1. The Authority hereby amends the Program to increase the interest rate from 2% to 3% to finance real property acquisition, construction or renovation, and equipment or furnishing acquisition loans.

Section 2. The Authority hereby amends the Program to increase the interest rate from 3% to 4% for refinance loans.

Section 3. All other aspects of the Program remain unchanged.

Date Approved: ______________________________