CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY (Authority)

HELP II Programmatic Change

Information Item

June 27, 2024

Executive Summary

BACKGROUND:

At the May 30, 2024 Authority board meeting, the Authority approved Resolution No. 2024-02, increasing the Healthcare Expansion Loan Program II (HELP II or the Program) interest rate. The interest rate for property acquisition, construction, renovation, and equipment loans (together, New Money) increased from 2% to 3%, and the interest rate for refinancing loans (Refinancing) increased from 3% to 4%.

At the meeting, board members asked Authority staff to research a few more ideas for discussion regarding the Program:

1. Effects of increasing the interest rate for New Money to 3.5% rather than just 3%;
2. Consider a dynamic interest rate system;
3. Consider automatic triggers that would change the HELP II parameters.
4. How often should HELP II be analyzed?

Staff has researched and prepared responses to each of these suggestions and also asked TAP International, Inc. (TAP), the Authority's financial analyst to adjust their original presentation.

Analysis

Question 1: Should the Authority consider increasing the interest rate for New Money to 3.5%?

With the approval of Resolution No. 2024-02, the interest rate for New Money was increased from 2% to 3%. A question was raised at the May 30, 2024, meeting if the interest rate should instead be 3.5% and for TAP to update certain tables in their slideshow they provided to the Authority (see Exhibit A) to look into that scenario. Staff discussed that idea early on and decided to not include the slides for simplicity and to support our recommendation to do small gradual increases, which led to staff's recommendation of 3%.

Staff asked TAP to update the tables that reflected the scenarios discussed here, whereby HELP II loan demand slowed to $8 million (see Table 1) and to $10 million (see Table 2) of loans closed each year to include a 3.5% interest rate.

TABLE 1

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 3.5% Loan Interest Rate	Fund Balance EoY at 3.5% 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	$6,799,663	$12,608,205
2025	$8,000,000	$7,359,663	$11,967,867	$7,439,663	$12,047,867	$7,479,663	$12,087,867	$7,519,663	$12,127,867
2026	$8,000,000	$7,919,663	$11,887,530	$8,079,663	$12,127,530	$8,159,663	$12,247,530	$8,239,663	$12,367,530
2027	$8,000,000	$8,479,663	$12,367,193	$8,719,663	$12,847,193	$8,839,663	$13,087,193	$8,959,663	$13,327,193
2028	$8,000,000	$9,039,663	$13,406,856	$9,359,663	$14,206,856	$9,519,663	$14,606,856	$9,679,663	$15,006,856
2029	$8,000,000	$9,599,663	$15,006,518	$9,999,663	$16,206,518	$10,199,663	$16,806,518	$10,399,663	$17,406,518

TABLE 2

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 3.5% Loan Interest Rate	Fund Balance EoY at 3.5% 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	$6,799,663	$10,608,205
2025	$10,000,000	$7,499,663	$8,107,867	$7,599,663	$8,207,867	$7,649,663	$8,257,867	$7,699,663	$8,307,867
2026	$10,000,000	$8,199,663	$6,307,530	$8,399,663	$6,607,530	$8,499,663	$6,757,530	$8,599,663	$6,907,193
2027	$10,000,000	$8,899,663	$5,207,193	$9,199,663	$5,807,193	$9,349,663	$6,107,193	$9,499,663	$6,407,193

Table 1 indicates that at an annual loan volume of $8 million, the HELP II fund balance will be a sufficient fund balance to fund $8 million in loans at each preset level of interest rate.

Table 2 shows that at an annual loan volume of $10 million, the HELP II fund balance would not have enough money to meet the loan demand in 2025 at each preset level of interest rate, including with a 3.5%.

If the increased interest rate can slow down the demand for HELP II loans, an interest rate of 3% for New Money is recommended for ease and simplicity of calculating the repayment amortization schedule for staff and the borrower as well as for marketing purposes. A 3.5% interest rate would bring in more program income than a 3% interest rate starting in 2025; however, staff does not feel that the incremental increase in income outweighs the benefit of ease and simplicity.

Staff can revisit another interest rate increase, even for just half a percent, at a later date if the HELP II fund balance continues to be at a significantly low level and additional interest rate increases are needed to further tighten demand and allow the fund balance to increase more quickly.

Question 2: Should the Authority consider a dynamic interest rate system?

HELP II has historically utilized a fixed interest rate system. As shown in Table 3 below, the interest rate for New Money was 3% from 1995 – 2005, 2% from 2015 – 2023, and with the passing of Resolution No. 2024-02, it is back to 3%. With a fixed interest rate system, the repayment of principal and interest remains the same throughout the life of the HELP II loan, simplifying the repayment amortization schedule for staff and the borrower as well as allowing borrowers to make better cashflow strategic business decisions given the fixed amount over 15-20 years.

Staff reviewed two dynamic interest rate systems:

- **a variable interest rate system** would change the interest rate over time based on an underlying index or benchmark interest rate. Commercial bank loans with variable interest rates typically are tied to the Prime Rate plus an additional spread. For example, a commercial bank loan may offer a real estate mortgage loan for prime rate + 1.5%. If the prime rate was 5%, a borrower would expect to pay 6.5% until the rate resets. Variable rates can be reset on a daily, weekly, quarterly, or annual basis.
- **A "locked-in" interest rate system** in which the interest rate for the Program would change based on an underlying index, but a specific borrower's interest rate would be fixed for the life of its particular loan. In this system, the Program interest rate would be benchmarked to an index allowing the interest rate to rise and fall throughout the year while the borrower's interest rate would be "locked-in" to whatever the interest rate is as of a specified date (e.g., application date, loan approval date, etc.).

A key feature of HELP II has been the reliability, simplicity and ease of the loan approval and closing process where possible. A consistent and determined fixed interest rate, which HELP II has always implemented, is the most simple and easy method for both borrowers and staff. At the May 2024 board meeting, the Authority increased the interest rate from 2% to 3% because it was well below the commercial market rates while also discussing concerns that 4% interest rate could be too high for small, rural borrowers.

Introducing a variable rate or locked-in interest rate system that would potentially fluctuate by 1% (i.e., between 2.5% and 3.5%) adds layers of complexity without providing a commensurate benefit for the borrower or Authority staff. A variable interest rate system could be confusing and burdensome for borrowers to track, and challenging and costly for Authority staff as we would need to hire and contract with a financial advisor to assist with the interest rate resetting, adding to the Authority's expenses, where it the cost may offset any potential monetary benefits. Additionally, a variable rate or locked-in interest rate system would be challenging for marketing. Including but not limited to adding language of defining the locked-in interest rate system, then ensuring borrowers and staff fully understand the concept. For variable rate loans, staff would also need to figure out ways to adjust interest rates during the life of the loan, review each loan on a daily basis, have internal reviews, acquire a software program that would support and calculate the adjusting rate, interest and principal payment, and continuously keep the borrower informed of the changes. While not as onerous as variable rate loans, the locked-in interest rate system would also require additional staff time to monitor the changes in the benchmark interest rate, and communicate the changes to potential borrowers, and could create uncertainty for potential borrowers as they plan projects and budget for the costs of financing. The Authority does not have the bandwidth to meet these changes and would need to create a new division to restructure the HELP II program. The Authority currently doesn't utilize funds from HELP II for administering it but from funds it receives from its bond financing program.

With a fixed rate system, CHFFA promotes the Program with a set rate and advertises throughout our website, newsletters, pamphlets, social media, and other outreach methods. The rates are set from the start of the loan application, through board approval and loan closing, and the monthly payments are the same for the life of the loan. This technique has worked for CHFFA making it simpler to market to our target audience without adding the complication of daily adjustments. CHFFA staff recommends continuing with a fixed interest rate system.

Question 3: Should the Authority consider a fund balance trigger?

The Authority approved Resolution No. 2015-05 in April 2015, which, among other things, increased the maximum HELP II loan amount from $1,000,000 to $1,500,000. Resolution No. 2015-05 also reauthorized a 2012 Program parameter, which set a $6 million fund balance floor as a trigger. Resolution No. 2015-05 stated if the Program fund balance decreases below the $6 million floor, it automatically prevented staff from considering applications, which requested funds in excess of $1,000,000 without Authority approval. The concept behind the floor trigger was to safeguard the fund balance and to allow borrowers with smaller loan requests the opportunity to receive a HELP II loan should larger loans reduce the fund balance.

The floor was removed with the approval of Resolution No. 2021-03 in July 2021. Staff and TAP noted the minimum floor does not actually safeguard the fund balance. The HELP II fund balance has no expenses, maintains a 0% default rate, and currently earns approximately $490,000 in income monthly or $6 million annually. Income includes loan principal and interest repayments, and the fund also earns interest from the Surplus Money Investment Fund for idle fund balance funds, which has a return rate of 4.014% as of March 31, 2024. Staff recommended to remove the floor since the Authority already has the authority to approve or reject loans of any size, and the minimum floor adds an unnecessary step that could potentially delay projects. Additionally, staff recommended the removal of the floor trigger because there was little direction on how the application of the trigger would actually work. For example, if the fund balance was below $6 million, and staff received multiple applications in excess of $1 million on the same day, it would be difficult for staff to determine which borrower's application would be processed for Authority approval. We would need to create ways of determining which applicant should be processed for financing over the other and provide reasonable explanation, which would add a layer of unnecessary confusion.

Furthermore, in response to factors severely impacting health facilities, the Authority has previously approved funds within the HELP II fund balance to be used for purposes other than HELP II loans. For example, in 2008 and 2010 many rural hospitals were facing unanticipated and staggering financial burdens associated with the anticipated State budget impasse and delayed Medi-Cal reimbursements. The Authority approved the Medi-Cal Bridge Loan Program, which provided short-term working capital loans to rural hospitals from funds available from the HELP II fund balance. The Authority approved 22 loans for $8.8 million in 2008 and 2010. In 2017, the Authority approved the Emergency HELP Loan Program transferring $2 million from HELP II to provide zero percent loans for health facilities affected by the Northern California wildfires, also known as the Northern California firestorm, North Bay Fires, and the Wine Country Fires, which were a series of 250 wildfires that started burning across the state. Additionally, in 2020, the Authority approved the COVID-19 Emergency HELP Loan Program, which utilized $5 million from the HELP II fund balance to provide financial assistance to health facilities impacted by the COVID-19 pandemic. Without a floor trigger, the Authority has been allowed the flexibility to consider and amend the Program's policies on an as-needed basis to address emergency situations faced by small and rural health facilities.

Based on the facts stated herein staff recommends not creating a fund balance trigger for the HELP II fund balance at this time.

Question 4: How often should HELP II be analyzed?

Since the inception of HELP II, staff proposals for programmatic changes were event-based not necessarily time-based. Events such as an overly robust fund balance, increased housing market prices, increased maximum loan amount, and low loan volume. Table 3 below summarizes the programmatic changes over the years.

TABLE 3

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

Year	Maximum Loan Amount	Maximum Annual Gross Revenues[1]	Interest Rate	Maximum Term
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.

Staff regularly monitors the HELP II fund balance, loan volume, and income levels, and through the HELP II Annual Report presents a summary of the data to the Authority board on an annual basis. While monitoring the Program as well as considering external factors, such as commercial interest rates, increases in real estate and construction costs, staff recognizes that adjustments to HELP II may need to be recommended and will confer with its financial analyst to bring programmatic change recommendations to the Authority board as needed. Also, the Authority board can direct staff, at any time, to provide an in-depth analysis of the fund balance and HELP II loan parameters (interest rates, maximum loan amounts, maturity deadlines, and criteria for "small" eligibility through gross revenues).

Staff recommends to continue providing the HELP II Annual Report as the primary method for monitoring the fund balance, loan volume, and income levels, and to address any Authority board member concerns on an as-needed basis. If a more in-depth evaluation of the fund balance and loan parameters is needed, staff will work with its financial analyst to provide an evaluation and present the findings to the board. Therefore, a specific fund balance amount to "trigger" an additional review continues to not be necessary.

Exhibit

- Exhibit A – TAP International, Inc. HELP II Loan Interest Rate slideshow, as presented at the May 2024 Authority board meeting.

Exhibit A

California Health Facilities Financing Authority

HELP II Loan Parameter Review

May 2024

TAP INTERNATIONAL, INC.
TRAINING ANALYTICS PERFORMANCE

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%
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%

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%
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, 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 ($)
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[1]	25,505,860
2018	5	4,101,500	14,443,513	24,723,233
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[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.

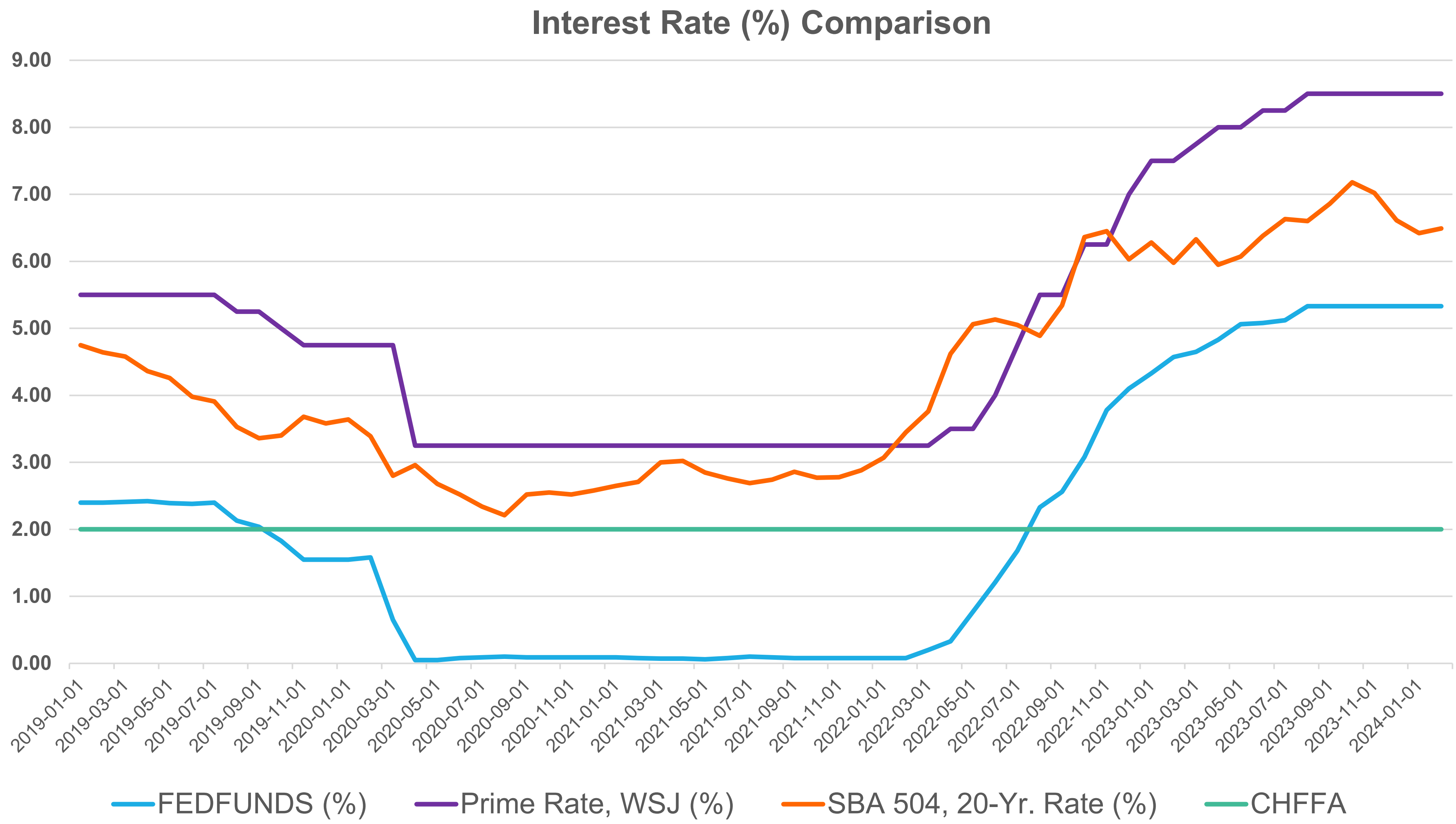
* Approximate average yearly HELP II loan volume, 2015 – 2023.

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