



Small Business Finance



2005
ANNUAL
REPORT



CREATING VALUE

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We are proud to have provided financing for the small business owners featured on the cover:

Dr. Won Moon – Orthodontist

Pablo Perez – Candy el Pecos

Don Feeley, Sr. and Don Feeley, Jr. – City Body and Frame

The George Hadjis family – Oggi's Pizza & Brewing Co.

Creating Value for Lending



George Ramirez

At CDC Small Business Finance, **creating value** for lending partners, borrowers and the community is not just a good business practice, it's an operating philosophy that guides our everyday decisions and planning for the future. It's our imperative for doing the right thing.

More than ever, in 2005 I appreciated the value CDC adds in connecting people and resources. Whether it's linking borrowers to an assortment of capital programs – particularly the SBA 504 program – or small business owners to lenders, CDC is at the center, facilitating mutually beneficial relationships.

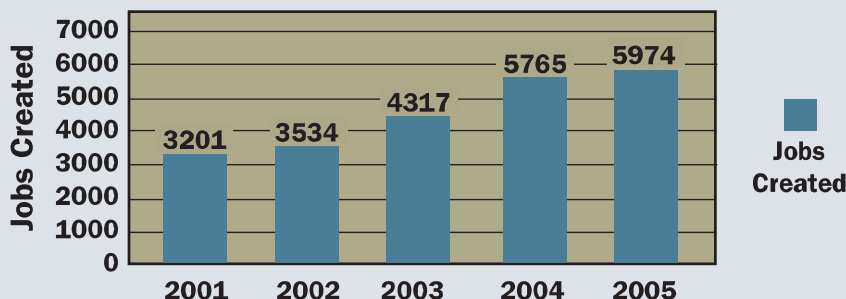
CDC has truly evolved as one of the nation's best kept secrets in the financial arena. In providing access to capital to small businesses that allows them to expand, we are strengthening the economic backbone of the country – stimulating job growth, boosting tax bases and fostering community revitalization. In short, we're helping to create wealth for small businesses and our communities.

As we reach out to meet the needs of small business, I have great faith and confidence in CDC's innovative management team and high-performing staff. They've proven time and again that no matter the challenge, they rise to create value through high-quality service, reliability, experience and expertise. It's why lenders seek us out. It's what distinguishes us as the leading CDC in the nation.

We dedicate this 2005 annual report to two passionate champions of small business who retired this year – SBA District Directors George Chandler (San Diego, 24 years) and Sandy Sutton (Santa Ana, 11 years). Their leadership legacy is the prosperity of thousands of Southern California businesses that thrived with the support of SBA capital programs.

GEORGE RAMIREZ
Chairman, CDC Small Business Finance
and Market President,
Union Bank of California

JOBS CREATED BY CDC SMALL BUSINESS FINANCE



Partners, Borrowers and the Community



Kurt Chilcott

In an ever competitive marketplace, we know the importance of bringing real **value** to the table – for our lenders, small business clients and the community. It is this value that helped catapult CDC Small Business Finance to another record-setting year in 2005, **surpassing 600 SBA 504 loans and providing over \$1.3 billion in capital** to

small business. The end result: over 10,000 new jobs will be created and retained in communities throughout California, from Sacramento to Fresno to Los Angeles to El Centro.

Value to lending partners

Our bank and other lending partners know well the value of working with CDC. They know we have the expertise to handle a broad continuum of loans – from the routine to the most challenging. And they know we go the extra mile to make projects happen. This is why more lenders turn to CDC

Small Business Finance than any other CDC in the nation. They also recognize our value in the form of speed, consistency and reliability. We continue to deliver on all three, ensuring satisfied clients.

Value to small business owners

Small business owners quickly learn to value CDC for our connections to capital resources. Not only are we familiar with more lenders in more markets, but we offer access to a range of capital programs not provided by other organizations. We're familiar with the particular needs of each lender and program, their credit requirements and how they operate. The end result is that clients not only get the best financing for their business, but also a smooth ride along the loan approval and funding path. To

provide value to more small businesses in California, this year we opened an office in Sacramento – our first entry into Northern California – and further bolstered our high-performing staff in CDC's Los Angeles regional office.

Value to communities

Our communities gain value from CDC's activities year after year – value from the jobs and investment we help stimulate, such as the nearly 23,000 new jobs created in the last five years; value from the organizations and initiatives we support with financial resources. In 2006, we'll look to grow our community lending programs and continue forging new strategic alliances with organizations that share our focus on economic development. Further, when we can add value that benefits small businesses and communities, we will continue to expand into new markets.

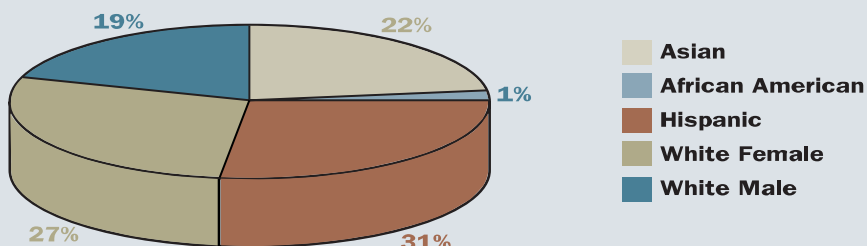
Value to SBA and the CDC industry

CDC also brings value to the SBA and the CDC industry by committing time and resources to help improve and support the SBA in its mission and ensure a growing, viable CDC industry. We stepped up our involvement in the CDC industry national trade association this year. As NADCO chairman for the next two years, I'm committed to making sure our nation's policymakers understand and appreciate the value of a viable, successful SBA 504 program, the CDC industry and its lending partnerships.

At CDC Small Business Finance, there's no such thing as standing still. We'll continue to reinvent, establish best practices and innovate the way we do business. And at the same time we'll remain riveted on providing exceptional service to our borrowers and lending partners. It's the best way we know to create real, appreciable value for all.

KURT CHILCOTT
President and Chief Executive Officer
CDC Small Business Finance

2005 COMMUNITY LENDING PROGRAM Distribution of Small Business Owners Receiving Loans





Richard Evans, D.P.M. (left) and Bradley Baum, M.D. opted to buy versus lease and purchased their own medical office building with SBA 504 financing.

THE RIGHT PRESCRIPTION

Developer **Ed Anderson** believes he's discovered a permanent cure for the building-lease ills of physicians... SBA 504 financing.

"I noticed doctors were paying as much in office rent as it would cost them to buy their own facility," said Anderson, who develops medical condominium buildings by pooling physician dollars in a limited liability company (LLC). Once the project is constructed, the individual doctors purchase their own office suites from the LLC using a 504 loan.



Ed Anderson, Medical Real Estate Development Company

Anderson has developed hundreds of medical offices in Southern California since 1993, with complexes ranging in size from 10,000 square feet to 75,000. He has eight complexes currently under construction or on the drawing board.

This innovative entrepreneur says the 504 loan is a perfect vehicle for his purposes and CDC Small Business Finance an invaluable partner.

"CDC staff get pre-approvals lightning fast, are creative and don't make their obstacles mine," he said. "Loan officer **Phil Mulder** has even served as part of our team in consulting with physician groups."

He added: "We've been wooed by other CDCs, but why change horses when the ride is so smooth?"

Doctors like the Anderson-CDC prescription because of the huge financial upside.

"Now I pay rent to myself as I build equity with a reliable tenant – myself," said Temecula family practice physician Dr. Douglas Wise.

**THIS INNOVATIVE ENTREPRENEUR
SAYS THE 504 LOAN IS A PERFECT
VEHICLE FOR HIS PURPOSES AND
CDC SMALL BUSINESS FINANCE
AN INVALUABLE PARTNER.**

**CDC SMALL BUSINESS FINANCE
ACKNOWLEDGES THE FOLLOWING LENDING
PARTNERS FOR THEIR OUTSTANDING
PERFORMANCE IN 2005:**

Leading SBA 504 Lender
Bank of America

Leading SBA 504 Community Bank Lender
Community National Bank

Lender Recognition Awards
Business Community Capital
California Bank & Trust
Community Bank
Discovery Bank
Five Star Bank
GE Capital
IronStone Bank

Provident Savings Bank
San Diego National Bank
Security Bank of California
Torrey Pines Bank
U.S. Bank
Wells Fargo Bank
Zions First National Bank

NO TOYING AROUND

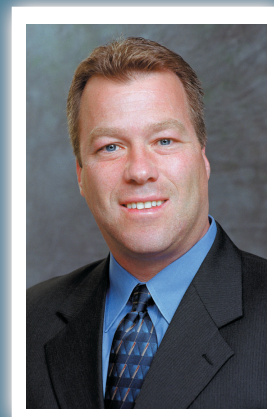


CEO Brian Kessler called upon CDC's special expertise to finance his new headquarters for Maui Toys. His company's flagship product is the Hula Hoop.

Some projects are slam dunks. But it often takes creativity, special expertise and just plain moxie to secure financing for some small businesses.

That's what **Craig Evans** of **GE Capital** discovered when he teamed up with **CDC Small Business Finance** to overcome the challenge presented by **Maui Toys** in West Los Angeles.

One of the larger manufacturers of Hula Hoops in the world as well as other children's playthings, Maui Toys had spent more than two years constructing a new, three-story, sales headquarters. With construction complete, the company needed permanent, long-range financing to the tune of \$2.2 million. Owner Brian Kessler was at odds with his bank and didn't think a SBA 504 loan was possible.



Craig Evans, GE Capital

"With CDC's expertise, we were able to reimburse the owner for all his construction costs – hard and soft – and structure the deal so he was able to use the appreciation on the property for the down payment," said Evans. "CDC added value to the project through exceptional customer service."

Evans said that in addition to contributing 504 knowledge, CDC responded to GE Capital's needs as well as the borrower's.

"As a lending partner, CDC is top notch," he said. "Loan officer **Dean Aloe** responded to our calls often in minutes. That's how projects are won and lost."

**"CDC ADDED VALUE TO THE PROJECT
THROUGH EXCEPTIONAL CUSTOMER SERVICE."**

WE WERE ALSO PRIVILEGED TO WORK WITH THESE EXEMPLARY LENDING PARTNERS:

American Security Bank
Arrowhead Credit Union
Banco Popular
Bank of Santa Clarita
Bank of the West
Beach Business Bank
Borrego Springs Bank
Bridge Bank

California Community Bank
California National Bank
Canyon National Bank
Cathay Bank
Center Bank
China Trust Bank
Citibank
Citizens Business Bank

City National Bank
Coast Capital
Comerica Bank
CommerceWest Bank
Commonwealth Business Bank
El Paseo Bank
Excel National Bank
Farmers & Merchants Bank
First Bank
First Commerce Bank

First National Bank
First Republic Bank
1st Pacific Bank of California
First Standard Bank
Hanmi Bank
La Jolla Bank & Trust
Landmark National Bank
Lehman Brothers Bank, FSB



Dean Haidl, Bank of America

SCORE THAT A STRIKE

In bowling, one of the most difficult shots to convert is a 7-10 split, when pins on opposite sides of the lane remain standing. Most bowlers just groan and concede the shot.

The split is akin to the challenge that **Bank of America's Dean Haidl** and **Randy Jones** faced trying to finance the purchase of a 40-lane bowling alley in Lake Forest, California for \$5.9 million.

"The seller had a drop-dead closing date and we couldn't do a conventional loan," said Haidl.

"We were between a rock and a hard place."

Enter CDC Small Business Finance.

Determined to make the deal happen, Haidl and CDC loan officer **Mike Muetzel** worked out an

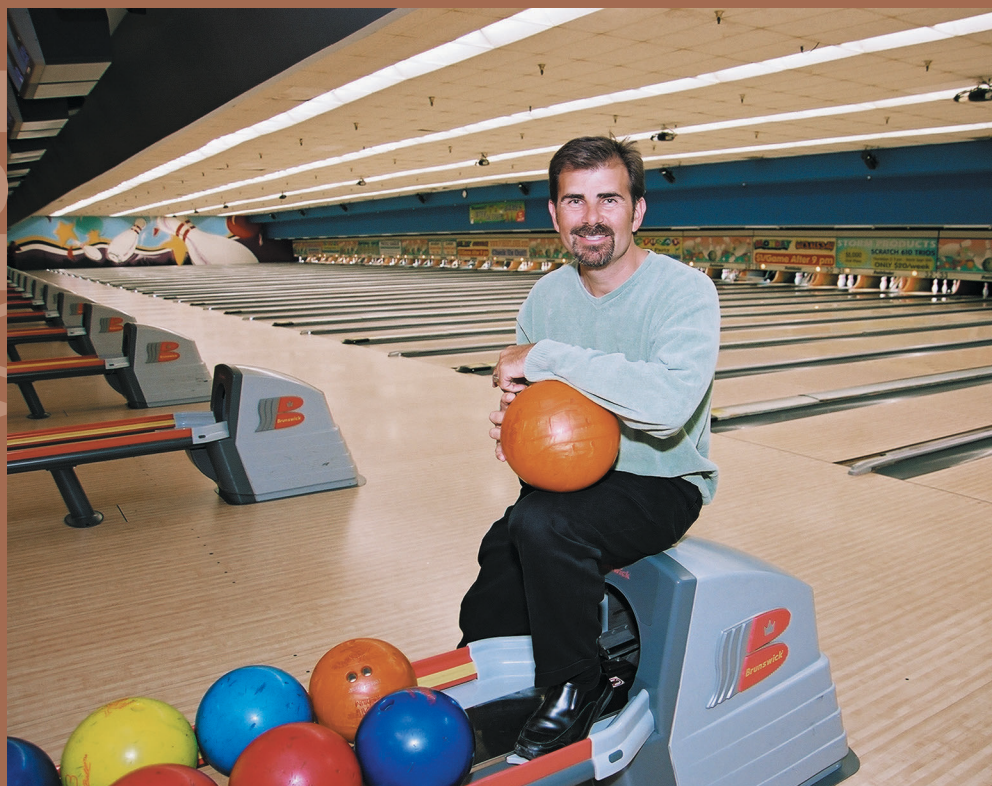
arrangement for a temporary loan from the seller to meet the escrow deadline and then arranged for permanent financing through an SBA 504 loan. CDC was able to come in with a high loan-to-value ratio that made Kinstler eligible for the 504 loan.

"We wouldn't have been able to do this deal without CDC," said Haidl. "Their people were both aggressive and creative."

For buyer Charlie Kinstler it was his second 504 loan in a successful career that's seen him purchase other troubled bowling centers in Southern California and return them to profitability. Revenues on his Forest Lanes center are up 63 percent since he purchased the business and he plans to create 38 new jobs over the next two years.

"The 504 is the best loan a small business can get, period," said Kinstler. With CDC teaming up with Bank of America, this one came off without a hitch. It was smooth sailing."

Or arguably, smooth rolling.



Charlie Kinstler needed help to beat a drop-dead closing date to purchase a 40-lane bowling alley.

**"WITH CDC TEAMING UP WITH BANK OF AMERICA,
THIS ONE CAME OFF WITHOUT A HITCH."**

Manufacturers Bank
Mellon 1st Business Bank
Mirae Bank
Mission Oaks National Bank
Mission Valley Bank
Nara Bank
Neighborhood National Bank
North Island Federal Credit Union

Orange County Business Bank
Pacific Capital Bank
Pacific Liberty Bank
People's Capital and Leasing Corp.
Petrofunding, Inc.
PFF Bank & Trust
Point Loma Community Bank
Premier Commercial Bank
Premier Service Bank

Rabobank
Regents Bank
Roseville Bank of Commerce
Saehan Bank
San Diego County Credit Union
Seacoast Commerce Bank
Security Business Bank
South County Bank
Southwest Community Bank

Spectrum Commercial Lending, Inc.
Sun Country Bank
Sunrise Bank of San Diego
Temecula Valley Bank
Tustin Community Bank
Union Bank of California
Vineyard Bank
Wachovia
Wilshire State Bank

Creating Value for Small Business and Communities

Economic and community development is at the core of what CDC Small Business Finance does day in and day out. We measure our success by the value we create for communities and the small businesses that serve them.

The spirit of providing opportunities to underserved small businesses and communities is inherent in our SBA 504 program, community lending programs and financial support we provide for organizations that share our mission. Through the SBA 504 program the CDC has helped to create and retain over 43,000 jobs in California since 2001 – **over 22,000 in just the past two years**. The 504 program also provides economic stability in communities via ownership, jobs and increased tax revenue for municipalities.

Our community loan programs assist businesses that do not qualify for conventional financing. Further, these programs target entities owned by women, minorities and veterans, which face the greatest obstacles to securing capital. Nearly two-thirds of our community loans have been to this target market, providing access to capital for businesses that otherwise would not have had financing available to them.

Our value does not end there. CDC has been supportive of organizations engaged in community and neighborhood-based economic development. Over the last few years we have provided financial support to over 60 organizations engaged in economic and community development.

OUR COMMUNITY LENDING PROGRAMS

CDC Small Business Finance continues to be a leader in providing innovative financing and access to capital to today's small businesses via an array of programs. They include:

SBA Micro Loan Program – Launched in 2001, this program provides loans up to \$35,000 and includes pre- and post- loan technical assistance. CDC has provided \$648,400 in financing to 24 businesses, with an average loan size of \$27,016, and delivered pre- and post-funding technical assistance to over 100 companies.

San Diego Bankers' Small Business CDC – Through this multi-bank micro-loan consortium, we have historically offered financing up to \$50,000 to local businesses throughout San Diego. Over the years we have provided loans to 114 entrepreneurs, totaling \$3.8 million in funding. This year San Diego Bankers' Small Business CDC developed a new program to provide real-estate financing to acquire and develop child-care facilities and medical offices/clinics located in low/moderate-income areas. This program is available to both for-profit and non-profit entities.

Community Express SBA Loan Program – CDC serves as a technical assistance intermediary, partnering with financial institutions to help package, underwrite and monitor these SBA loans. Over half the loans we have originated have been to start-up businesses that would not have been eligible for conventional financing. Since 2002, we have worked to get 63 Community Express loans funded for a total of \$5.5 million in financing, creating more than 100 new jobs.

SoCal CDFI – This multi-bank consortium is the result of the merger of Inland Empire Lenders' CDC and Orange County Bankers' Small Business CDC. SoCal provides pre- and post-loan technical assistance linked to loans of \$200,000 or less for companies throughout the Inland Empire and Orange County regions. Some 121 businesses have been funded in the last eight years, totaling over \$5.1 million in financing.

Small Business Financial Development Corporation of Orange County – This state loan program is administered by CDC and provides loan guarantees for small businesses with limited collateral. The FDC has originated over 100 guarantees totaling more than \$12.8 million. This capital financing has created 373 jobs and assisted in retaining over 1,300 jobs in Southern California.

Technical Assistance –

Clients in our community loan programs are provided the opportunity to receive technical assistance. Our experience demonstrates that technical assistance can reduce the risk associated with higher-risk lending, ensure a more successful payback rate and facilitate the growth of the small businesses served. During the past three years we have provided one-on-one consulting to 1,500 entrepreneurs and group-based technical assistance to over 2,500 workshop participants. We also have a network of strategic community partners to which we can refer borrowers who require long-term technical assistance.

We thank the following institutions for their 2005 financial support of our small business technical assistance program:

BANK OF THE WEST
CALIFORNIA BANK & TRUST
COMERICA BANK
SILVERGATE BANK
UNION BANK OF CALIFORNIA
U.S. BANK
WASHINGTON MUTUAL
WELLS FARGO BANK

Nurturing Entrepreneurial Spirit through Education



2005 Arthur H. Goodman Scholarship winners, from left: Yuet-Ki Lam, Dorothy Pirtle, Victoria Wilcox, Angel Lam. (Not pictured: Enrica Macklin and Ricky Pope)

Every year CDC Small Business Finance selects a handful of deserving individuals from among dozens of applicants to receive scholarships from the Arthur H. Goodman Scholarship Endowment Fund, named after CDC's founder. To date, this fund has provided financial assistance to 24 dynamic, community-minded women and minority students transitioning from community college to a four-year university. This year's impressive recipients and the universities they're now attending, are:

RICKY POPE – San Diego State University
VICTORIA WILCOX – San Diego State University
YUET-KI LAM – University of California-Berkeley
ANGEL LAM – University of California-Berkeley
DOROTHY PIRTLE – University of California-Irvine
ENRICA MACKLIN – University of San Diego

We are grateful to the following benefactors that in 2005 generously supported the
 Arthur H. Goodman Scholarship Endowment Fund

Platinum Level

CALIFORNIA BANK
& TRUST

Gold Level

BANK OF AMERICA
 UNION BANK OF
 CALIFORNIA, NA
 WELLS FARGO BANK

Silver Level

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 LANDAMERICA COMMERCIAL SERVICES
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EXPERTISE • EXPERIENCE • RELIABILITY • SERVICE

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