



MEMORANDUM

TO: Members of the ICOC
FROM: C. Scott Tocher, Counsel to the Chair
RE: **Item 8:** Consideration of Amendments to Loan Administration Policy
DATE: November 4, 2010

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Executive Summary

Since the first meeting of the Loan Task Force in December 2007, CIRM has been working to develop policies necessary to implement a loan program. A loan program is essential to achieving the goal of commercializing stem cell research-related products, and to that end CIRM will fund for-profit institutions in California to accelerate such commercialization. In concert with the Loan Task Force, the Finance Subcommittee has further developed financial elements of the Loan Policy and advised the ICOC on those matters. In 2009 CIRM’s Governing Board adopted an interim policy and in November of 2009 the agency began the process of finalizing the Loan Policy (“policy”) for formal approval by the Office of Administrative Law (“OAL”). At the Board’s October meeting the ICOC approved amendments to the policy addressing loan terms. Subsequently, the Finance Subcommittee met to consider additional terms governing suspension/forgiveness and standards for awarding a loan, which are incorporated in the amendments for today’s consideration. **At this meeting staff requests the Board approve language in the policy addressing loan forgiveness and criteria for evaluation.** Staff will then prepare the policy for submission to OAL for final approval.

I. Amendments

A. Types of Support – I.D. (at p. 3)

The subcommittee and Board have determined that CIRM will not offer loans in connection with RFAs that are budgeted under \$3 million per award. The language in this section is clarified to implement the Board’s intent.

B. Reporting Related to Loan Terms – H.5. (at p. 7)

The Interim Loan Administration Policy contained several triggering events that would result in accelerated payback of the loan. Among other triggers was if the Loan Recipient had an IPO or received follow-on financing above a certain threshold. Therefore, the interim policy required loan recipients to report to CIRM when such events occurred. Subsequently, the ICOC eliminated accelerated payback of the loan and the reporting requirements of this section were amended to delete the reporting of these two events. In retrospect, however, such events remain valuable to CIRM in tracking the success of the loan program and so the reporting requirement relative to these two events is reinstated.

C. Suspension and Forgiveness of Product-Backed Loans – G. (at pp.10-11)

The interim policy contained provisions that governed “Project Abandonment” and loan forgiveness. These provisions described the circumstances under which a loan recipient would be allowed to suspend its repayment obligations.

The Finance Subcommittee met recently to consider amendments to these provisions to clarify how and under what circumstances a Product-Backed loan will be forgiven. The Subcommittee has not concluded its consideration of final language and has elected, in the interim, to leave in place the language from the Interim policy. Thus, the language proposed in this section has already been considered and approved by the Board when it adopted the Interim policy last year.

D. Loan Application Process – J. (at p. 12-13)

In addition to scientific merit, the ICOC may decline a loan application on financial grounds. This section is amended to clarify the process for an applicant to select either a Company- or Product-Backed Loan and describes the criteria under which the loan will be evaluated. As in the context of Suspension and Forgiveness, the Finance Subcommittee met recently to consider further amendments to this section to clarify the standards the ICOC will employ in evaluating the financial readiness of an applicant for a loan. The Subcommittee’s work on this language has not yet concluded, and recommends leaving in place the language from the Interim policy. Accordingly, with minor modification for the consistent use of terms, the language proposed has already been considered and approved by the Board when it adopted the Interim policy last year.

II. Recommendation:

Staff recommends the ICOC approve the amendments to the loan policy.