

PORTLAND DEVELOPMENT COMMISSION
Portland, Oregon

RESOLUTION NO. 6766

**ESTABLISH SMALL CONTRACTORS LOAN INSURANCE
PROGRAM AND ADOPT PROGRAM GUIDELINES**

WHEREAS, the core objective of the Portland Development Commission's ("PDC") Business Finance Program is job creation and retention to spur economic development activity that creates wealth in the community through ownership and operation of locally owned businesses;

WHEREAS, the Portland Economic Development Strategy (the "Strategy") adopted by City Council in 2009 identifies four traded sector industry clusters as having the highest potential for growth due to the concentration of firms in the city and the existence of critical elements to competitive advantage over other industries;

WHEREAS, this program will initially be targeted to small building contractors and projects in the Clean Technology Cluster;

WHEREAS, large-scale retrofit of existing building stock within the City of Portland to improve energy efficiency is a priority for the Clean Tech cluster, and enhancing the technical and financial capacity of independent building contractors is essential to that effort;

WHEREAS, working lines of credit are the most appropriate financing tool for building contractors and PDC's Business Finance Program has traditionally only been available for direct lending;

WHEREAS, loan insurance is an effective structure to address the construction market because the insurance leverages PDC's investment and relieves PDC of the administrative burden of managing a line of credit product; and

WHEREAS, a loan insurance structure also allows PDC to scale the program quickly to meet the growing demand for working capital financing among independent building contractors in the energy efficiency sector.

NOW, THEREFORE, BE IT RESOLVED that the Small Contractors Loan Insurance Program (the "Program") be established and the program guidelines attached as Exhibit A are hereby adopted (the "Guidelines");

BE IT FURTHER RESOLVED that the PDC Executive Director is authorized to take all actions necessary or desirable to implement the Program in a manner consistent with the Guidelines and to delegate such authority to other PDC staff;

BE IT FURTHER RESOLVED that the Executive Director is authorized to make procedural and administrative changes to the Guidelines but shall present any policy changes to the PDC Board of Commissioners for approval; and

BE IT FURTHER RESOLVED that this resolution shall become effective immediately.

Adopted by the Portland Development Commission on January 27, 2010.

A handwritten signature in cursive script that reads "Renee A. Castilla". The signature is written in black ink and is positioned above a horizontal line.

Renee A. Castilla, Recording Secretary

SMALL CONTRACTORS LOAN INSURANCE PROGRAM

General Information:

The Small Contractors Loan Insurance Program (SCLIP) is a credit enhancement program that provides partial insurance for lines of credit offered by private lenders to independent construction contractors, with a focus on contractors specializing in energy efficiency and green development projects, in the city of Portland.

The Portland Economic Development Strategy adopted in 2009 identifies four traded sector industry clusters as having the highest potential for growth due to the concentration of firms in the city and a competitive advantage over other industries. Clean Technology (Clean Tech) is one of the strategy's target clusters, and green development and energy efficiency are two promising sectors within the Clean Tech cluster. Large scale retrofit of the existing building stock within the City of Portland is a priority for the Clean Tech sector and enhancing the technical and financial capacity of independent contractors is essential to that effort.

Loan insurance is an effective structure to address this market because the insurance leverages Portland Development Commission's (PDC) investment in the program and relieves PDC of the administrative burden of managing a line of credit product. The insurance structure also allows PDC to scale the program quickly to meet the growing demand for working capital financing among independent contractors in the energy efficiency sector.

Participating Lender:

- A Participating Lender is a lender that has (a) been approved by the PDC Loan Committee and (b) entered into a standard loan insurance agreement with PDC that outlines the rights and responsibilities of the lender and PDC, and details the conditions under which PDC will partially insure repayment of an Eligible Loan made to an Eligible Borrower;
- A Participating Lender may be a bank lender or a non-bank lender targeting underserved credit market niches, including borrowers with barriers to accessing bank credit;
- Participation in the program will be limited based on available resources.

Eligible Borrower:

- Independent contractors working on small construction projects in the city of Portland and holding a city of Portland business license;
- Priority will be given to independent contractors that have difficulty attracting private working capital and are listed as Trade Ally Contractors with the Energy Trust of Oregon, which indicates a specialization in green development and energy efficiency projects.

Eligible Loan:

- An Eligible Loan is a working capital revolving line of credit with advances to fund expenses incurred in performing construction and energy retrofit projects that (a) has an interest rate and terms comparable to those on other similar products offered by the Participating Lender and reflects current market conditions and (b) has been underwritten according to the Participating Lender's accepted underwriting guidelines for transactions of this type as well as the guidelines for this program.

Service Area:

- City-wide with emphasis on contractors working on projects intended to improve the energy efficiency of existing residential or commercial buildings in the city of Portland.

Job Creation:

- There is not a direct job-to-loan requirement associated with this program.

I. Program Operation Overview

- The program provides partial loan repayment insurance to a Participating Lender for an Eligible Loan made to an Eligible Borrower, as approved by PDC;
- ***All Eligible Loans submitted for insurance must be processed, underwritten and approved by a Participating Lender. In order to receive insurance, the Eligible Loan must be submitted by a Participating Lender to PDC for approval;***
- The insurance limit for a loan is the lesser of (a) 50% of the maximum principal amount of the loan or (b) \$25,000. For example, a \$50,000 loan shall be eligible for up to \$25,000 in insurance and a \$40,000 loan shall be eligible for up to \$20,000 in insurance.
- The insurance is paid on the unpaid outstanding principal amount only. For example, if the borrower has a line of credit for \$50,000 but an outstanding balance of only \$30,000 at the time of default, the insurance would cover 50% of the outstanding balance or \$15,000;
- Loans in excess of \$50,000 shall not receive insurance greater than \$25,000;
- PDC's insurance percentage will decline over time, starting at 50% at closing (to a maximum of \$25,000), declining to 25% at the beginning of the second year (to a maximum of \$12,500), and 0% at the beginning of the third year;
- The aggregate PDC insurance for all loans of a Participating Lender shall not exceed \$300,000 at any time, regardless of the number of Eligible Loans of a Participating Lender insured under the program;
- The Participating Lender shall pay PDC a non-refundable insurance fee equal to 2% of the insurance amount for each loan insured.
- A Participating Lender may use this program in conjunction with any other federal or state loan guarantee or insurance program, but the Participating Lender must have a minimum of 25% of the loan amount unguaranteed or uninsured during the term of the loan;

- Upon default, the Participating Lender shall use its established loan collection methods to collect on the debt before it seeks payment under PDC's loan insurance. A loan must be must have been formally declared in default by the lender and a minimum of 90 calendar days elapsed from date a default was declared before the lender can seek payment under PDC's loan insurance;
- Subject to satisfaction of the program requirements, the lender shall receive from PDC the current insured percentage (either 50% or 25%) of the outstanding principal amount of a defaulted insured loan, up to \$25,000 per borrower;
- Any amount the Participating Lender collects on a loan after a loan is declared in default and PDC has paid the insurance benefit to the Participating Lender shall, after deduction of the Participating Lender's unreimbursed collection costs, be shared between the Participating Lender and PDC based on the insurance percentage in effect at the time the insurance benefit was paid; and
- PDC and the Participating Lender shall each be responsible for its own expenses incurred in the administration and collection of any amounts due under the loan. In event of default, any collection, legal, and other expenses incurred by the lender shall be the responsibility of the borrower and the lender. PDC shall not be responsible for reimbursing any such expenses.

Eligible Loan Guidelines

Loans originated under SCLIP will be underwritten and administered by the Participating Lender. Participating Lenders shall underwrite each Eligible Loan and are expected to follow the accepted underwriting procedures established by the Participating Lender for these loans, recognizing that the PDC insurance will allow the Participating Lender to assume a higher level of risk than with an uninsured loan. As part of its underwriting process, the Participating Lender shall, at a minimum, confirm that:

- The borrower has the ability to repay any advances under the line through payments for work performed or other cash flow;
- The loan is personally guaranteed by the principals of the borrower and, to the extent considered necessary by the Participating Lender, is secured by collateral;
- Borrower and principals have a credit history that is consistent with or better than other similar borrowers in the Participating Lender's portfolio;
- Principals of the borrower have demonstrated industry experience and a history of completing projects on time and within budget; and
- The borrower has contracts or orders to provide construction or retrofit services.

As part of the Participating Lender's submission to PDC for insurance, a loan report containing the following information, to PDC's satisfaction, shall be included:

- Date;

- Name of Borrower;
- Business Location;
- Action Requested;
- Purpose;
- Company History;
- Industry Experience of Principal;
- Loan Information including terms;
- Loan Rating Criteria;
- Repayment Ability;
- Credit;
- Collateral, if any;
- Strengths;
- Weaknesses;
- Rationale for endorsing the loan; and
- Conditions for Approving the Loan, if any.

Loan Insurance Decision

Loans submitted to PDC for insurance shall be reviewed by Business Finance staff to determine if the loan is an Eligible Loan to an Eligible Borrower and otherwise meets program guidelines and to determine if the underwriting is sound. The Business Finance Manager will recommend any insurance requests for approval or denial, and the Business & Industry Division Manager shall approve or deny all insurance requests.

When a request for insurance is approved, a loan insurance authorization letter shall be issued by the Business Finance Manager of PDC to the Participating Lender with copies provided to the Loan Servicing Division Manager and Senior Accounting Manager. If the request is denied, a letter will be provided to the Participating Lender stating specific reasons for denial.

Project Reporting

On a quarterly basis, each Participating Lender will provide a written report to PDC's Business Finance Manager on the status and performance of all of the Participating Lender's loans insured under the program. This report shall include a list of the projects completed or in progress by the borrower location of such projects, the total project/contract cost, and a brief description of the job being performed on each project.

At the end of each quarter, the Business Finance Manager shall prepare a summary of the performance of the program, highlighting any potential defaults, and present this summary to the PDC Loan Committee.

Program Fund Source

The program will be funded solely by eligible sources of funds, including Federal and other sources of funds that can be used to insure private working capital loans.

Marketing of Program

Participating Lenders will work with PDC to market the program as a joint initiative in meeting the business needs of small contractors working on green development and energy efficiency projects.

Performance Measurement

PDC seeks to achieve a default rate of 10% or less within the first two years of the program and a default rate of 5% thereafter for the non-Clean Energy Works Program contractors.

PDC

PORTLAND DEVELOPMENT COMMISSION

Resolution Number 6766

Title:

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PROGRAM AND ADOPT PROGRAM GUIDELINES

Adopted by the Portland Development Commission on January 27, 2010.

PRESENT FOR VOTE	COMMISSIONERS	VOTE		
		Yea	Nay	Abstain
<input checked="" type="checkbox"/>	Chair Scott Andrews	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input checked="" type="checkbox"/>	Commissioner Bertha Ferrán	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input checked="" type="checkbox"/>	Commissioner John Mohlis	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input checked="" type="checkbox"/>	Commissioner Steven Straus	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input checked="" type="checkbox"/>	Commissioner Charles Wilhoite	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Consent Agenda		<input checked="" type="checkbox"/> Regular Agenda		

Certification

The undersigned hereby certifies that:

The attached resolution is a true and correct copy of the resolution as finally adopted at a Board Meeting of the Portland Development Commission and duly recorded in the official minutes of the meeting.



Date: March 5, 2010

Renee A. Castilla, Recording Secretary