PORTLAND DEVELOPMENT COMMISSION
Portland, Oregon

RESOLUTION NO. 6870

CHANGE THE NAME OF THE SMALL CONTRACTORS LOAN INSURANCE PROGRAM TO THE SMALL BUSINESS LOAN INSURANCE PROGRAM AND REVISE THE PROGRAM GUIDELINES TO EXPAND ELIGIBILITY

WHEREAS, in January 27, 2010, the Portland Development Commission ("PDC") Board of Commissioners ("Board") adopted Resolution No. 6766 establishing guidelines for the Small Contractors Loan Insurance Program (the "Existing Program");

WHEREAS, staff has worked with various financial institutions to extend credit under the Existing Program to small construction contractors;

WHEREAS, the Existing Program is restricted to small construction contractors providing services in the Clean Tech Cluster and has not resulted in the anticipated deployment of resources;

WHEREAS, the need for working capital for small businesses that are not construction contractors continues to grow but PDC does not have the appropriate financial tools to meet that need; and

WHEREAS, revising the Existing Program to expand the range of eligible borrowers will enhance PDC's effectiveness in supporting small businesses throughout the city.

NOW, THEREFORE, BE IT RESOLVED that the Small Business Loan Insurance Program Guidelines, in the form attached as Exhibit A, are hereby adopted (the "Revised Guidelines");

BE IT FURTHER RESOLVED, that the Revised Guidelines shall supersede and replace the Small Contractors Loan Insurance Program Guidelines adopted by Resolution No. 6766;

BE IT FURTHER RESOLVED that the Executive Director is authorized to take all actions necessary or desirable to implement the program described in the Revised Guidelines (the "Revised Program") in a manner consistent therewith, 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 Revised Guidelines, and shall present any other policy changes to the Board for approval; and

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

Approved by the Portland Development Commission May 11, 2011.

Tracey A. Penna

Recording Secretary

Small Business Loan Insurance Program Guidelines

SMALL BUSINESS LOAN INSURANCE PROGRAM (SBLIP)

General Information:

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

The PDC Strategic Plan identifies healthy neighborhoods with wealth creation as one of the desired outcomes. Key actions are to: support the creation and development of small business opportunities, and focus on economic development activities that support the retention and creation of family wage jobs.

In addition, 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 small businesses operating as independent construction contractors is essential to that effort.

Loan insurance is an effective structure to address this small business 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 small business owners, including independent construction contractors in the energy efficiency sector.

Participating Lender:

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- 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:

- Small businesses located in Portland and holding a City of Portland business license.
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- Priority will be given to small businesses that are independent construction contractors that have difficulty attracting private working capital and that 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 new working capital revolving or non-revolving line of credit with advances to fund operating expenses, inventory increases, or 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.

- Existing loans held by a Participating Lender or a loans being refinanced are not eligible for the loan insurance program.

Service Area:

- City-wide with emphasis on commercial corridors.

Job Creation:

- There is no direct job-to-loan requirement associated with this program.

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;

- Participating Lender's 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 $500,000 at any time, regardless of the number of Eligible Loans of a Participating Lender insured under the program;

- Upon approval 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 Participating 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 (excluding attorneys fees), 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 SBLIP 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, i.e. accounts receivable, 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 as normally would be required on such a loan;

- 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 successfully operating a business or completing projects on time and within budget; and

- If a construction contractor, 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 Scoring
- Repayment Ability
- Credit
- Collateral, if any
- Strengths

- Weaknesses
- Rationale for recommending 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 or a staff person appointed by the Executive Director 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 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.

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 Financial Investment 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 working capital needs of small businesses, including independent small construction contractors working on green development and energy efficiency projects.

Performance Measurement:

PDC seeks to achieve a default rate of 7% or less on this loan insuranceprogram.

PDC
PORTLAND DEVELOPMENT COMMISSION

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Adopted by the Portland Development Commission on May 11, 2011.

PRESENT FOR VOTE	COMMISSIONERS	VOTE		
		Yea	Nay	Abstain
☒	Chair Scott Andrews	☒	☐	☐
☒	Commissioner Aneshka Dickson	☒	☐	☐
☐	Commissioner John Mohlis	☐	☐	☐
☒	Commissioner Steven Straus	☒	☐	☐
☒	Commissioner Charles Wilhoite	☒	☐	☐

☐ **Consent Agenda** ☒ **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.

Tracy A. Reeve

Recording Secretary

Date: May 11, 2011