



**PROSPER**  
**PORTLAND**  
Building an Equitable Economy

**DATE:** June 12, 2019  
**TO:** Board of Commissioners  
**FROM:** Kimberly Branam, Executive Director  
**SUBJECT:** Report Number 19-23  
Approving Guidelines for the Thriving Small Business Loan Program

### **BOARD ACTION REQUESTED AND BRIEF DESCRIPTION**

Adopt Resolution No. 7315

This proposed action by the Prosper Portland Board of Commissioners (Board) will approve program guidelines (Program Guidelines) for the Thriving Small Business Loan (TSB Loan) program, a new financial tool primarily focused on small traded and non-traded sector businesses owned by women and individuals from underrepresented populations. During the two-year pilot period, the TSB Loan program will be assessed for delivery of anticipated outcomes, including the number of loans funded; the number of participating businesses that take advantage of the incentive feature of the program; the race and gender of businesses owners participating; and wealth-creating impact of the loans at the early, start-up phase of the businesses. At the end of the pilot in summer 2021, staff will make any necessary changes to the TSB Loan Program Guidelines and seek Prosper Portland Board approval as a permanent loan program with dedicated funding.

### **STRATEGIC PLAN ALIGNMENT AND OUTCOMES**

Prosper Portland's Strategic Plan is focused on fostering widely shared prosperity among all residents of Portland. The TSB Loan program has been structured to directly address access to capital issues faced by underrepresented populations, including business owners who are women, business owners of color and businesses owned by those in low-income areas, and connecting entrepreneurs with targeted technical assistance.

### **BACKGROUND AND CONTEXT**

Prosper Portland provides working capital and equipment financing but the volume of loans funded has declined substantially during the last few years. In fiscal year (FY) 2014-15, the agency closed 15 business loans (not including Commercial Property Redevelopment, predevelopment or tenant improvement loans); since that time, the agency has funded, on average, three business loans annually. The majority of those loans were funded from the Economic Development Administration (EDA) program, which is designed to provide financing to businesses that are unable to secure loans from banks and other lending sources. Even with this focus, EDA program guidelines lack the flexibility needed to fund many of the borrowers who approach Prosper Portland for financing. For example, some borrowers are unable to contribute 10 to 20 percent of the requested financing amount of project costs, as required by EDA guidelines. This mismatch in lending resources has contributed to the lack of meaningful loan production and has also limited the Prosper Portland's ability to address access to

capital issues faced by cluster industry firms and businesses owned by individuals from underrepresented populations.

To address access to capital issues, Prosper Portland staff convened a brainstorming session in October 2018 comprised of alternative and conventional lenders, technical assistance providers, and community partners to discuss gaps in the financing market and possible solutions to address them. Based on this conversation and subsequent research into social impact investing, staff identified three potential pilot loan programs:

1. The **TSB Loan program**, which provides flexible financing and rewards start-up and early phase companies that engage in technical assistance programs. During the pilot, the program will initially be focused on providing financing to Prosper Portland’s Inclusive Business Resource Network clients, Increase Project graduates, Mercatus and My People’s Market participants and Neighborhood Prosperity Network businesses. Applications will also be accepted from other Portland-area small businesses during the pilot period. It is anticipated that a minimum of seven TSB loans will be funded during FY 2019-20.
2. The **Revenue-Based Financing (RFB) Loan program** combines features of bank debt and venture capital and provides flexibility to the business owner in the repayment of the debt, without the need to give up equity in the company. Repayment of the financing is based on a percentage of the borrower's monthly revenue rather than a fixed amount. The payments fluctuate with the financial performance of the business, with payments increasing when revenue is strong and decreasing when it is lower. As an incentive for companies to embark on a journey of internal culture change that results in a more inclusive and diverse workforce, the RFB Loan program provides forgiveness of up to 10 percent of total repayment amount, at the end of the loan term, for borrowers who successfully launch a Diversity, Equity, and Inclusion program and develops short- and long-term goals that center a racial equity strategy in the workplace culture. Borrowers are not required to engage in this work as a condition of loan approval but will not receive the forgiveness benefit if they decline to do so.
3. The **Creating Opportunity Loan program** is focused on the creation and retention of middle-wage jobs. The program is designed to provide financing to growth stage, near bankable traded sector companies that are generating recurring and growing revenue and adding new customers. This loan program also provides an incentive for businesses to create a more inclusive and diverse work place. Businesses can receive an interest rate reduction of up to five percent if they successfully launch a Diversity, Equity, and Inclusion program and develop short- and long-term goals that center a racial equity strategy in the workplace culture.

Staff anticipates requesting Prosper Portland Board approval of the latter two loan program guidelines in autumn 2019.

### **EQUITY IMPACT**

The TSB Loan program addresses access to capital issues faced by small businesses owned by women and individuals from underrepresented populations. These entrepreneurs have the most difficult time securing funding for their ventures and this lack of access hampers business growth. The TSB Loan program provides much needed capital at the start-up phase of the business, along with targeted technical assistance, which better positions the business owners for growth and business success.

### **COMMUNITY PARTICIPATION AND FEEDBACK**

As described, Prosper Portland staff convened a brainstorming session in late 2018 to discuss access to capital issues; feedback from the participating conventional lenders, technical assistance providers, and community partners was critical in creating the TSB Loan Program Guidelines. For example, some of the participants noted that small businesses aren't facing a lack of available capital; rather they have not been in business long enough or secured sufficient collateral. The TSB Loan program is focused on providing an incentive for borrowers, some who may be in the start-up phase, to engage in technical assistance to provide them with the tools they need to grow their business. By removing a required minimum time in business and having flexible collateral requirements, Prosper Portland will be able to fund businesses that have difficulty securing much-needed financing during a critical stage of business growth.

### **BUDGET AND FINANCIAL INFORMATION**

Prosper Portland has programmed resources for three existing loan funds (Business Development Loan Fund, Small Business Loan Fund, and Working Capital Loan Fund) in the budget and four-year forecast: there is \$1,500,000 allocated for FY 2019-20, \$1,500,000 for FY 2020-21, and \$700,000 allocated for FY 2021-22. Should the Prosper Portland Board approve the Program Guidelines, staff will reallocate all of these existing resources to the TSB Loan program during the pilot period.

### **RISK ASSESSMENT**

As with any loan, there is a risk of potential default. This risk may be greater in circumstances, as here, in which collateral requirements may be less stringent in order to reach prospective borrowers with capital needs yet little accumulated wealth, (such as a home to pledge or significant personal assets, or in which capital is advanced to businesses that are starting up or have a shorter operating history than banks might traditionally seek). This risk is mitigated by a budgeted 30 percent interest loss reserve, a 30 percent principal loss reserve, prudent underwriting and review by the Financial Investment Committee, as well as securing the loan with the best available collateral. Companies are also incentivized to receive targeted technical assistance, which will provide owners with needed skills and support that will contribute to the growth of the business and successful repayment of loan.

### **ALTERNATIVE ACTIONS**

The Prosper Portland Board may elect to not approve the Program Guidelines, in which case Prosper Portland will not be able to administer the TSB Loan program. Alternately, the Prosper Portland Board could propose amendments to the Program Guidelines prior to adoption.

### **ATTACHMENTS**

None.