

PROSPER PORTLAND

Portland, Oregon

RESOLUTION NO. 7315

APPROVING GUIDELINES FOR THE THRIVING SMALL BUSINESS LOAN PROGRAM

WHEREAS, Prosper Portland's 2015-2020 Strategic Plan calls for developing financial tools to achieve greater access to capital among business owners of color, businesses owned by women, those in low-income neighborhoods, and other individuals from underrepresented populations;

WHEREAS, Prosper Portland desires to support and cultivate high-growth entrepreneurs from underrepresented populations, including communities of color, women, and those from low-income neighborhoods; and

WHEREAS, Prosper Portland wishes to establish the Thriving Small Business Loan Program as a pilot program to explore it as a means towards meeting these objectives.

NOW, THEREFORE, BE IT RESOLVED, that the Thriving Small Business Loan Program Guidelines attached hereto as Exhibit A are adopted by the Prosper Portland Board of Commissioners for a pilot period of two years;

BE IT FURTHER RESOLVED, that the Executive Director is hereby authorized to execute loan documents consistent with the Thriving Small Business Loan Program Guidelines during the aforementioned pilot period;

BE IT FURTHER RESOLVED, that the Executive Director is authorized to make any procedural and administrative changes and/or approve exceptions to the Thriving Small Business Loan Program Guidelines if such changes do not materially increase Prosper Portland's obligations or risks, as determined by the Executive Director in consultation with the Financial Investment Committee and/or General Counsel; and

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

Adopted by the Prosper Portland Commission on

June 12, 2019



Pam Feigenbutz, Recording Secretary

THRIVING SMALL BUSINESS LOAN PROGRAM (TSB)

The Thriving Small Business Loan Program provides up to 100% financing for traded and non-traded sector small businesses and has flexible collateral requirements. Loans may be subordinate to existing or future senior, market-rate financing. Prosper Portland will also make senior position loans. The loan program will initially be focused on providing financing to Inclusive Business Resource Network clients, Increase Project graduates and Mercatus and My People's Market participants and Neighborhood Prosperity Initiative area businesses. Businesses do not need to be profitable for loan approval but must demonstrate a clear path to profitability.

Creating Impact

Loan program provides interest rate reduction of up to five percent for borrowers who successfully complete technical assistance during the term of the loan (2.5% reduction for completing 15 hours of technical assistance (TA), balance upon completing 30 hours of TA).

Prosper Portland Guidelines for Thriving Small Business Loan Program (TSB):

- Eligible Lending Area: Citywide
- Eligible Borrowers: Traded and non-traded sector small businesses, with a focus on those owned by individuals from underrepresented populations, particularly women, communities of color and entrepreneurs from low-income neighborhoods.
- Allowable Lending Activities: Funds may be used for working capital, equipment purchases and business growth/expansion.
- Loan Amount: Minimum of \$25,000 and maximum of \$50,000.
- Minimum Time in Business: No minimum, but business must have an existing history of recurring sales.
- Interest Rate for Loan Repayment: Minimum of 8% and Maximum of 12%, based on risk profile of business and loan underwriting.
 - Interest rate can be reduced by a total of 5%, based on successful completion of 30 hours of technical assistance. Reduced rate will not be less than loan program floor rate of 3%.
- Payments: Principal and interest. Payments may include up to one year of interest only payments, based on loan underwriting.
- Loan Term: Up to 10 years, not including the interest only period.

- Loan Fee: 2% of amount borrowed. (Fee may be rolled into the loan).

- Personal Guarantee: Personal guaranties shall be required from all owners with 20% or more interest in the subject business, unless this requirement is waived on an exception basis as recommended by FIC and approved by the Executive Director.

- Collateral: Blanket UCC filing on company assets; UCC on specific equipment purchased with loan proceeds. If the business owner has and will provide real estate collateral, this will be accepted, and initial loan interest rate will reflect decreased risk.

- Security: Trust Deeds will be obtained and supported by lender's title policies in those cases where real property is pledged as collateral. Liens on company assets will be perfected by UCC-1 filings, after UCC searches have been conducted to determine encumbrances and ensure the desired lien position.

- Loan to Value Ratio (LTV): When a loan is secured by real estate, the maximum LTV is 100%. When secured by other company assets, the maximum LTV is as follows (per Prosper Portland property valuation guidelines):
 - Accounts receivables at no more than 75% of net book value;
 - Heavy equipment at no more than 50% of net book value;
 - Light equipment and any other business assets at no more than 25% of net book value.

- Debt Service Coverage (DSCR): Combined debt service coverage ratio of 1.10x or better is required.

- Borrower Credit: Borrower must have credit acceptable to Prosper Portland. Borrower and principals of company must not have unpaid tax liens or bankruptcies in the last seven years without written explanation acceptable to Prosper Portland. Any collections, charge-offs or past due payments over 60 days must have written explanation acceptable to Prosper Portland.

- Business Management and Industry Experience: Borrower should demonstrate sufficient business management and industry experience.

- Financial Reporting: Borrower shall provide financial statements on the business and principals on an annual basis or as requested by Prosper Portland.

- Insurances: Appropriate hazard and liability insurance shall be required, and key person life insurance may be required depending on the size and nature of the transaction, the level of risk identified by the underwriter, management structure, and collateral securing the loan. Prosper Portland shall be named as Additional Insured, Lender's Loss Payable or other appropriate designation (as determined in consultation with the Legal Department) on the appropriate insurance policies.

- **Appraisal Reports:** As appropriate, depending on the loan amount, loan-to-value, and identified risks, appraisal reports or other valuation determinations shall be obtained, where existing fixed assets and/or real properties are being used as primary collateral. Appraisals will utilize qualified appraisers having expertise appropriate to the assets being pledged. The cost of these appraisal(s) shall be paid for by the borrower, whether or not the loan is approved.

Global Cash Flow Analysis: Global cash flow analysis should be a part of the underwriting process. There are two methods of conducting a global cash flow analysis – a standard and a modified form.

Standard Form – Uses tax returns and financial statements to calculate personal cash flow and contributions from pass-through entities.

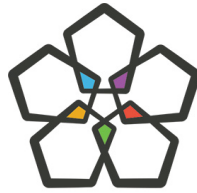
Modified Form – Starts with the standard form but uses net cash flow after debt service for each individual and adds it to the total business cash flow. Both business cash flow and global cash flow is analyzed to compare the cash flows in each scenario.

- **Standard form, which is best used when:**
 - There are fewer than three owners who have 70-100% of the aggregate business ownership
 - Where guarantor cash flow weighs heavily on the global relationship performance
 - Where business cash flow is the primary source of cash flow in the relationship
 - Where the loan officer thinks the business and personal income are commingled
- **Modified form, which is best used when:**
 - There are three or more guarantors

Global Cash Flow Best Practices: When conducting a standard global cash flow analysis, it's important to follow these best practices:

- When assessing the cash flows, it's important to combine the business and personal cash flow but make sure that cash flow is not being double-counted as a result of commingling
- Look for commingled business and personal debt (e.g., home equity loan that was used for the business)
- For "interest only" loans, be sure to use imputed amortization to calculate P&I payments at end of I/O period
- Assume full utilization of lines of credit, calculating appropriate annual debt service

- Deduct a living expense percentage of the individual's salary (15-20 percent is a common guideline)
- Use K-1 instead of investment income reported on 1040 E Part II for an accurate assessment of personal cash flow



**PROSPER
PORTLAND**
Building an Equitable Economy

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RESOLUTION TITLE:

APPROVING GUIDELINES FOR THE THRIVING SMALL BUSINESS LOAN PROGRAM


Adopted by the Prosper Portland Commission on June 12, 2019

PRESENT FOR VOTE	COMMISSIONERS	VOTE		
		Yea	Nay	Abstain
<input checked="" type="checkbox"/>	Chair Gustavo J. Cruz, Jr.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input checked="" type="checkbox"/>	Commissioner Alisha Moreland-Capua MD	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input checked="" type="checkbox"/>	Commissioner Francesca Gambetti	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input checked="" type="checkbox"/>	Commissioner Peter Platt	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input checked="" type="checkbox"/>	Commissioner William Myers	<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 Prosper Portland Commission and as duly recorded in the official minutes of the meeting.

	Date: June 12, 2019
Pam Feigenbutz, Recording Secretary	