PROSPER PORTLAND

Portland, Oregon

RESOLUTION NO. 7349

APPROVING GUIDELINES FOR THE REVENUE-BASED FINANCING AND CREATING OPPORTUNITY LOAN PROGRAMS

WHEREAS, Prosper Portland's Strategic Plan calls for developing financial tools to achieve greater access to capital among businesses owned by people of color, 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;

WHEREAS, Prosper Portland has a goal of creating access to high-quality employment by supporting traded sector business growth and encouraging the creation of diverse and inclusive workforces; and

WHEREAS, Prosper Portland wishes to establish the Revenue-Based Financing and Creating Opportunity Loan Programs as a means of meeting these objectives.

NOW, THEREFORE, BE IT RESOLVED, that the Revenue-Based Financing and Creating Opportunity Loan Program Guidelines attached hereto as Exhibit A and Exhibit B respectively 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 Revenue-Based Financing and Creating Opportunity Loan Program Guidelines during the 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 Revenue-Based Financing and Creating Opportunity 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 November 13, 2019

Pam Feigenbutz

Pam Feigenbutz, Recording Secretary

REVENUE-BASED FINANCING

Revenue-based financing combines features of bank debt and equity, without the dilutive effects of the latter and the inflexible repayment schedule of the former. 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. Monthly payments are made until a pre-defined return multiple, internal rate of return or maturity date is reached, at which point the debt is paid off.

Revenue-based financing is best for high-growth, early- and growth -stage companies with solid but irregular revenue streams that are unable to secure bank financing or venture capital. The company will have the ability to scale and grow revenue quickly during a 5-10-year period from funding. Scalability can come in a variety of forms including:

- New products and services
- Adding new customers and/or markets
- Adding new locations that will drive increase in revenue

These companies also create or have the potential to create middle wage jobs, defined by the Oregon Office of Economic Analysis as occupations that pay $35,000-$50,000 (in 2017 dollars) and do not require a bachelor's degree.

Creating Impact

Provide forgiveness of up to 10 percent of Prosper Portland earned income at the end of the loan term for borrowers who successfully launch a diversity, equity, and inclusion (DEI) program at their business and develop short- and long-term goals that center an 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. See DEI section below for more information.

Prosper Portland Guidelines for RBF:

- <u>Eligible Lending Area</u>: Citywide
- <u>Eligible Borrowers</u>: An eligible borrower is a high-growth, high-margin business in one of the categories of traded sector businesses. These categories reflect Prosper Portland's strategic priorities, as defined in the Prosper Portland Strategic Plan:
    - Target Cluster Businesses, which are **Athletic & Outdoor Gear and Apparel, Green Cities Products & Services, Technology & Media and Metals & Machinery;**
    - Emerging Industries, such as **Medical Devices, Health Sciences, Food & Beverage Manufacturing and Craft & Artisanal Manufacturing;**
    - Traded and non-traded sector businesses owned by individuals from underrepresented populations, particularly women, communities of color and entrepreneurs from low-income neighborhoods.
- <u>Allowable Lending Activities</u>: Funds may be used for working capital, equipment purchases, tenant improvements and other appropriate business growth/expansion needs.
- <u>Loan Amount</u>: Minimum of $55,000 and maximum of $250,000, but no more than one-third of company's annualized revenue run rate (current revenue in a certain period such as a month or quarter that is converted to an annual figure to get a full-year equivalent).

Loan proceeds can be disbursed in tranches that track operational and performance milestones. These milestones and corresponding disbursement amounts should be developed collaboratively with the business owner and tailored to each company, based on its growth projections and capital needs. Milestones should be specific and clear so there is no ambiguity in achieving them (simple yes or no to move forward with a disbursement) and to ensure all parties are on the same page. Examples of milestones are:

- Execution of a purchase order with an anticipated new client
- Reaching predetermined sales target
- Expansion into new market
- Minimum Time in Business: No minimum, but business must have an existing history of recurring sales that meet the loan program's minimum gross annual revenue requirement.
- Minimum Gross Annual Revenue Requirement: $200,000, based on historical financials and/or annualized revenue run rate that considers factors such as non-recurring income, etc. Business does not need to be profitable but must demonstrate a clear path to profitability. Any exceptions to this requirement must be recommended by FIC and approved by the Executive Director.
- Minimum Gross Profit Margin (Gross profit margin = revenue – cost of goods sold)/revenue): Minimum historical and projected gross profit margin of 50% required on all loans. Business must have sufficient margin for revenue-based repayment while maintaining adequate cash flow for business operations.
- Return Multiple for Repayment: 1.25x to 1.75x, depending on risk profile of business, collateral and loan underwriting (e.g., a loan is made to a company for $100,000, with a 1.5x multiple. The borrower will make repayment until Prosper Portland receives a total of $150,000, at which time the loan will be paid in full). Loans secured solely with non-real estate collateral will generally have a higher return multiple to compensate for increased risk.
- Calculating Percentage of Top-Line Revenue Required for Full Repayment: Divide total repayment amount by projected cumulative revenue (e.g., company loaned $100,000 with a 1.50x multiple, for total repayment of $150,000. Loan has five-year term, during which the company projects to generate $4,000,000 in cumulative revenue. The percentage of monthly revenue needed for full repayment is $150,000/$4,000,000 or 3.75 percent). Using this formula will allow loan officer to determine if projected revenue is adequate for full repayment at desired multiple and loan term. Percentage of top-line revenue allocated for repayment must not exceed 10 percent.
- Calculating Amount of Cumulative Top-Line Revenue Required for Full Repayment: Divide total repayment amount by revenue percentage (e.g., using same example above, the total amount of cumulative revenue needed is $4,000,000 ($150,000/3.75 percent)).
- Initial Payment Trigger: Initial payment triggered by either revenue target or start date (e.g., business reaches $250,000 gross revenue or six months after loan closing date), which will be determined during loan underwriting. In either case, the initial payment start date will not be more than six months from loan closing. From the date of loan closing, the borrower shall, on a monthly basis, provide Prosper Portland with a cash basis income statement as of the end of the preceding month. This statement will be due no later than the 5th of the month. For example, an income statement will be due to Prosper Portland on or before February 5 for the period ending January 31. When repayment begins, the borrower will, in addition to the income statement, include a check for the monthly payment due, which will be based on the agreed percentage of gross monthly revenue.

When a gross revenue target is used to trigger the start of the repayment period, it will be combined with a date certain by which repayment will start, even if the gross revenue target is not reached.

Example: a loan is funded in July 2019 with a date certain of February 1, 2020, by which date it is expected that the company will generate $250,000 in gross revenue. The borrower begins providing a monthly income statement in August 2019. When the income statement for January 2020 is received, it indicates that the business has not reached the income target. The business will begin repayment in February, based on gross revenues generated by January 31, 2020.

Payments will continue until the term ends, at which time any remaining balance will be due in full, unless the balance is paid off prior to maturity. Any remaining balance at end of term will either be paid off through a balloon payment from borrower or refinance of the debt through another lender, or the term may be extended by Prosper Portland.

- Financial Reporting: Business income statements will be required monthly, starting the month following loan closing. Borrower will be required to provide an annual financial statement for the year within 90 days of the end of the year. A copy of the filed tax returns will also be required, and this will be used to reconcile the amount of payment received for the previous years. Borrower will be required to pay any shortage that is found during the reconciliation process and any overpayment will be applied to the loan balance. Borrower shall also provide financial statements from principals on an annual basis or as requested by Prosper Portland.
- Loan Term: Up to five years, not including grace period between loan closing and Initial Payment Trigger, or until pre-determined return multiple is met, whichever is sooner.
- Loan Fee: 2 percent of amount borrowed, plus closing costs. Fee may be rolled into the loan.
- Personal Guaranty: Personal guaranties shall be required from all owners with 20 percent 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-1 filing on company assets and/or UCC on specific equipment/machinery purchased with loan proceeds. In the event the assets of the business are deemed inadequate to secure the loan, either due to inadequate value or prior encumbrances, a security interest in real property is required. Loans secured solely by blanket UCC filing will have a higher return multiple to compensate Prosper Portland for increased risk.

When company property such as equipment is used as collateral, an estimate of the property's collateral value will be based on the borrower's net book value of the property, per Prosper Portland's valuation guidelines. See Loan to Value section below for more information.

- Appraisal Reports: As appropriate, depending on the loan amount, loan-to-value, and identified risks, appraisal reports or other valuation determinations shall be obtained, when real properties are being used as primary collateral. Appraisals will utilize qualified appraisers having expertise appropriate to the assets being pledged. The borrower will be required to pay for the appraisal.

- Security: Trust Deed 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 the appropriate UCC filings, after UCC searches have been conducted to determine prior encumbrances and desired lien position.

- Loan to Value Ratio (LTV): When a loan is secured by real estate, the maximum LTV is 100 percent. 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 percent of net book value;
  - Heavy equipment at no more than 50 percent of net book value;
  - Light equipment and any other business assets at no more than 25 percent of net book value.

- 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.
- Job Reporting: Borrower shall provide annual information on jobs created and retained, with demographic and hourly wage/salary information included.
- Insurance: 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 such other status as deemed appropriate by the Legal Department on the insurance policies.
- Global Cash Flow Analysis Methods: Global cash flow analysis should be a part of the underwriting process. Refer to page 13 for best practices.

CREATING OPPORTUNITY LOAN PROGRAM

The Creating Opportunity Loan 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. These companies create or have the potential to create middle-wage jobs. The preferred companies for this loan program will have positive cash flow, but due to time in business, lack of real estate collateral or other factors may be unable to secure financing from a financial institution. Business does not need to be profitable for loan approval but must demonstrate a clear path to profitability.

The Creating Opportunity Loan Program provides financing with typical principal and interest repayment structure. If real estate or other collateral is unavailable or insufficient to secure loans, interest rate will reflect increased risk. Loans may be subordinate to existing or future senior, market-rate financing. Prosper Portland will also make senior position loans.

Creating Impact

Provide interest rate reduction of up to 5 percent for borrowers who successfully launch a diversity, equity and inclusion (DEI) program at their business and develop short- and long-term goals that center an equity strategy in their 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. See DEI section below for more information.

Prosper Portland Guidelines for CO:

- <u>Eligible Lending Area</u>: Citywide
- <u>Eligible Borrowers</u>: An eligible borrower is a business in one of the categories of traded sector businesses. These categories reflect Prosper Portland's strategic priorities, as defined in the Prosper Portland Strategic Plan:
    - Target Cluster Businesses, which are **Athletic & Outdoor Gear and Apparel, Green Cities Products & Services, Technology & Media and Metals & Machinery;**
    - Emerging Industries, such as **Medical Devices, Health Sciences, Food & Beverage Manufacturing and Craft & Artisanal Manufacturing;**
    - Traded and non-traded sector businesses owned by individuals from underrepresented populations, particularly women, communities of color and entrepreneurs from low-income neighborhoods.
- <u>Allowable Lending Activities</u>: Funds may be used for working capital, equipment purchases, tenant improvements and other appropriate business growth/expansion needs.
- <u>Loan Amount</u>: Minimum of $50,000 and maximum of $250,000.
- <u>Minimum Time in Business</u>: No minimum, but business must have an existing history of recurring sales.
- <u>Interest Rate for Loan Repayment</u>: 8 percent to 12 percent, based on risk profile of business and loan underwriting.
    - Interest rate can be reduced by a total of 5 percent, based on successful implementation of equity-based practices. Reduced rate will not be less than loan program floor rate of 3 percent.
- <u>Payments</u>: Principal and interest. Payments may include up to one year of interest only payments, based on loan underwriting.
- <u>Loan Term</u>: Up to 10 years, not including the interest only period.
- <u>Loan Fee</u>: 2 percent of amount borrowed, plus closing costs. Fee may be rolled into the loan.

- Personal Guarantee: Personal guaranties shall be required from all owners with 20 percent 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-1 filing on company assets and/or UCC on specific equipment/machinery purchased with loan proceeds. In the event the assets of the business are deemed inadequate to secure the loan, either due to inadequate value or prior encumbrances, a security interest in real property is required. Loans secured solely by blanket UCC filing will have a higher interest rate to compensate Prosper Portland for increased risk.

When company property such as equipment is used as collateral, an estimate of the property's collateral value will be based on the borrower's net book value of the property, per Prosper Portland's valuation guidelines. See Loan to Value section below for more information.

- Security: Trust Deed 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 ensured the RLF desired lien position.
- Loan to Value Ratio (LTV): When a loan is secured by real estate, the maximum LTV is 100 percent. 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 percent of net book value;
  - Heavy equipment at no more than 50 percent of net book value;
  - Light equipment and any other business assets at no more than 25 percent 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.
- Job Reporting: Borrower shall provide annual information on jobs created and retained, with demographic and hourly wage/salary information included.
- Insurance: 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 such other status as deemed appropriate by the Legal Department on the 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 the appraisal(s) shall be paid for by the borrower.
- Global Cash Flow Analysis Methods: Global cash flow analysis should be a part of the underwriting process. Refer to page 13 for best practices.

Menu of Options for Earned Return Multiple Forgiveness and Interest Rate Reduction for RBF and CO Programs.[1]

Tier 1, Minimum Requirements

Revenue-based financing – Total of 5 percent forgiveness of earned multiple fee

Creating Opportunity loan program – Total of 2.5 percent interest rate reduction (Interest rate range of 8-12 percent, based on business risk profile. Interest rate can be reduced a total of 5 percent, in increments of 2.5 percent, based on successful implementation of equity-based practices). Interest rate cannot be reduced below loan floor rate of 3 percent.

- Engage with equity practitioner to design a diversity, equity and inclusion program for the business.
- Complete diversity, equity and inclusion training for company executives and staff. Training curriculum and staff participation reported back to Prosper Portland. At least 85 percent of staff, including owners/executives, must attend all courses for forgiveness to be awarded at end of loan term or to receive an interest rate reduction.
- Create and/or ensure resources are available for employees to form/participate in a diversity, equity and inclusion team that will develop an equity plan for the business.

Tier 2, In addition to minimum requirements above:

Revenue-based financing – Total of 10 percent forgiveness of earned multiple fee

Creating Opportunity loan program – Total of 5 percent interest rate reduction

- Create a diversity hiring plan that contains recruitment, selection process, interviewing and retention strategies to attract candidates from underrepresented racial, ethnic, and gender backgrounds; and
  - Establish on-the-job training programs for hiring of new employees from underrepresented groups; or
  - Recruit employees with support of non-profits that work in communities of color and/or with women (such as Oregon Tradeswomen's Women in Metals & Manufacturing program); or
  - Provide mentorships, internships, youth work experience opportunities to students from historically marginalized populations; or
  - Do business and/or partner with minority- and women-owned businesses and organizations working with underserved populations.
- Business can also earn loan forgiveness by completing the Tier 1 requirements, then successfully receiving certification as a B corporation.
  - Certified B Corporations are businesses that meet the highest standards of verified social and environmental performance, public transparency, and legal accountability to balance profit and purpose.

[1] The specific details of the required diversity, equity and inclusion activities for interest rate reduction / loan forgiveness are subject to change, based on equity practitioner feedback and adjustments to requirements as this component of the loan programs is developed and implemented.

PROSPER PORTLAND
Building an Equitable Economy

RESOLUTION NO. 7349

RESOLUTION TITLE:

APPROVING GUIDELINES FOR THE REVENUE-BASED FINANCING AND CREATING OPPORTUNITY LOAN PROGRAMS

Adopted by the Prosper Portland Commission on November 13, 2019

PRESENT FOR VOTE	COMMISSIONERS	VOTE		
		Yea	Nay	Abstain
☑	Chair Gustavo J. Cruz, Jr.	☑	☐	☐
☐	Commissioner Alisha Moreland-Capuia MD	☐	☐	☐
☑	Commissioner Francesca Gambetti	☑	☐	☐
☑	Commissioner Peter Platt	☑	☐	☐
☑	Commissioner William Myers	☑	☐	☐

☐ **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 Prosper Portland Commission and as duly recorded in the official minutes of the meeting.

Pam Feigenbutz

Pam Feigenbutz, Recording Secretary

Date: November 20, 2019