



PROSPER
PORTLAND
Building an Equitable Economy

DATE: May 12, 2021
TO: Board of Commissioners
FROM: Kimberly Branam, Executive Director
SUBJECT: Report Number 21-10
Approving Program Guidelines for the Thriving Small Business, Revenue-Based Financing, and Creating Opportunity Loan Programs

BOARD ACTION REQUESTED AND BRIEF DESCRIPTION

Adopt Resolution No. 7414

This proposed action by the Prosper Portland Board of Commissioners (Board) will approve program guidelines for the Thriving Small Business, Revenue-Based Financing, and Creating Opportunity loan programs. All three program guidelines were initially approved by the Prosper Portland Board in 2019 for a two-year pilot period and staff are recommending that they now become formally adopted.

The three loan programs were created after considerable staff work to broaden access to capital to priority businesses. Each program, described in detail later in this report, was crafted to fill gaps in lending not being met by traditional or other lenders. During the two-year pilot period, the programs were to 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 the wealth-creating impact of the loans at the early, start-up phase of the businesses.

While the COVID-19 pandemic shifted Prosper Portland's lending activities, partly due to the utilization of funds from the U.S. Economic Development Administration (EDA), staff believe that lending activity in the new loan programs during fiscal year (FY) 2019-20 results was positive enough to support making them permanent.

STRATEGIC PLAN ALIGNMENT AND OUTCOMES

Prosper Portland's Strategic Plan is focused on fostering widely shared prosperity among all residents of Portland. The Thriving Small Business 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. 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; as such, the Revenue-Based Financing and Creating Opportunity loan programs were structured as a means to accomplish this goal.

BACKGROUND AND CONTEXT

The volume of Prosper Portland’s lending activity has declined substantially during the last few years. In 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. Most of those loans were funded from the 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 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 created three new loan programs:

1. The **Thriving Small Business Loan program** provides flexible financing and rewards start-up and early phase companies that engage in technical assistance programs. During the pilot, the program was initially focused on providing financing to Prosper Portland’s Inclusive Business Resource Network (IBRN) clients, Increase Project graduates, Mercatus businesses, and My People’s Market participants, and Neighborhood Prosperity Network businesses. Applications were also accepted from other Portland-area small businesses during the pilot period. Businesses can receive an interest rate reduction of up to five percent if they successfully complete 30 hours of technical assistance with an IBRN member or another Prosper Portland technical assistance provider partner. On June 12, 2019, the Prosper Portland Board through Resolution No. 7315 approved program guidelines for the Thriving Small Business Loan Program for a pilot period of two years.
2. The **Revenue-Based Financing 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 Revenue-Based Financing 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 develop 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. On November 13, 2019, the Prosper Portland Board through Resolution No. 7349 approved program guidelines for the Revenue-Based Financing Loan Program for a pilot period of two years.
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 workplace. 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. On November 13, 2019, the Prosper Portland Board through Resolution No. 7349 approved program guidelines for the Revenue-Based Financing Loan Program for a pilot period of two years.

EQUITY IMPACT

During FY 2019-20, Prosper Portland funded four Thriving Small Business Loans (\$400,000 total) and two Creating Opportunity loans (\$200,000 total). Of the six loans, three were to Black-owned businesses (\$300,000), two were to women-owned businesses (\$200,000), and all but one was to a Black, Indigenous, and People of Color owned business. Due to the COVID-19 pandemic, Prosper Portland's lending focus shifted away from the new loan programs to the EDA loan program, which has a two-year timeline to utilize the funds. As a result, the new loan programs were put on hold, yet staff feel they showed strong promise during the first fiscal year and should be made permanent.

BUDGET AND FINANCIAL INFORMATION

Prosper Portland has programmed resources from three existing loan funds to use for the loan programs (Business Development Loan Fund, Small Business Loan Fund, and Working Capital Loan Fund) during the next four fiscal years:

- \$3,081,005 (FY 2021-22)
- \$2,265,287 (FY 2022-23)
- \$1,835,780 (FY 2023-24)
- \$1,032,523 (FY 2024-25)

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 Committee for Accountability on Finance and Equity, as well as securing the loan with the best available collateral. Borrowers 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 either extend the pilot period, end the programs completely, or propose amendments to the loan program guidelines prior to adoption.

ATTACHMENTS

None.