



DATE: March 13, 2024
TO: Board of Commissioners
FROM: Kimberly Branam, Executive Director
SUBJECT: Report Number 24-11
Approving Commercial Property Loan and Small Business Loan Program Guidelines

BOARD ACTION REQUESTED AND BRIEF DESCRIPTION

Adopt Resolution No. 7525

This action by the Prosper Portland Board of Commissioners (Board) will approve new Commercial Property Loan and Small Business Loan program guidelines (collectively, Guidelines). If approved, these Guidelines, which have been crafted to deliver on the agency's strategic priorities, equity objectives, and Financial Sustainability Plan performance, will consolidate and supersede all existing real estate and business lending into these two programs.

STRATEGIC ALIGNMENT AND OUTCOMES

This action will allow Prosper Portland to adapt its lending approaches to evolving market and financial considerations while still meeting strategic objectives of job creation, prosperity, and vibrant commercial corridors.

BACKGROUND AND CONTEXT

The Prosper Portland Board has approved the following loan program guidelines over the past 15 years, listed chronologically:

- Business Incentive Program, Small Business Loan Fund, Business Development Loan Fund, Economic Development Administration; Resolution No. 6788 (April 28, 2010)
- Commercial Property Redevelopment Loan; Resolution No. 6863 (April 13, 2011)
- Commercial Property Assessed Clean Energy Program; Resolution No. 7144 (September 9, 2015)
- Neighborhood Prosperity Initiative Opportunity Fund; Resolution No. 7164 (February 10, 2016)
- Thriving Small Business Loan Program, Revenue-Based Financing Program, Creating Opportunity Loan Program; Resolution No. 7414 (May 12, 2021)

Over that time, Prosper Portland has effectively administered these programs to provide lending resources to borrowers in furtherance of the agency's strategic objectives of job creation, prosperity, and vibrant commercial areas.

With the recent City Council adoption of Advance Portland, a new five-year strategic plan for inclusive economic growth, and the Prosper Portland Board adoption of an updated Financial Sustainability Plan, staff have convened to propose amending lending products that would achieve the following:

- Align loan products to support Advance Portland, the Financial Sustainability Plan, and tax increment finance district (TIF) community action plans;
- Expand eligible uses to include property acquisition now possible with Program Income and the Strategic Investment Fund;
- Reduce the number of exceptions to program guidelines, triggering Prosper Portland Board approval;
- Establish increased transparency in the loan review and decision-making process;
- Remove barriers to entry experienced by individuals in underserved markets;
- Provide greater flexibility in structuring loan terms, particularly when negotiating complex, high impact projects; and
- Refine the agency's risk rating and risk-based pricing system.

Commercial Property Loans. This action will create new Commercial Property Loan guidelines which will include the following five types of loan products:

- Predevelopment Loan
- Tenant Improvement Loan
- Acquisition/Construction Loan
- Acquisition/Permanent Loan
- Commercial Property Assessed Clean Energy Loan

Changes from the previous guidelines include the following:

- Replacing the specific project purposes (e.g., Transit Oriented Development project, historic preservation) with a requirement that the project align with a current Prosper Portland strategy or plan (e.g., Advance Portland, TIF community action plans) as those plans change over time.
- Expanding eligible uses to include acquisition financing now possible with Program Income and Strategic Investment Fund resources.
- Expanding the service area to include all of Portland, now possible with Program Income and Strategic Investment Fund resources.
- Updating maximum loan amounts and extends amortization periods and due dates.
- Replaces Prime Rate with Treasury as the index for pricing and increases loan fees to two percent.
- Removes loan-to-value ratios, equity, and leverage requirements, and leaves these components to negotiated deal structuring.

Small Business Loans. This action will also create a Small Business Loan program that consolidates the myriad business loan program offerings into a single set of guidelines while eliminating the Revenue-Based Financing Program.

The Guidelines were designed in anticipation of increased real estate lending, including the addition of acquisition financing as an eligible use in response to current market conditions. The Guidelines also allow for greater flexibility in deal structuring while maintaining an appropriate level of risk and impact review. By standardizing more terms across product types and including less prescriptive terms with ranges and limits (e.g., up to 40-year amortization, due date of up to 15 years), staff will procure a more agile approach to structuring loans within these limitations. Varying restrictions under prior guidelines by program type regularly resulted in the need for executive director and/or Prosper Portland Board approval of an exception to guidelines that would otherwise be considered immaterial.

To guide implementation of a revised, more transparent underwriting process, staff developed a Loan Review Process (see Attachment A), which includes the following three key steps:

- **Baseline Eligibility Review** to ensure that all projects have a demonstrated lack of access to capital and meet minimum eligibility standards;
- **Risk Review** completed as a part of the loan underwriting process that provides transparency into the ultimate loan pricing; and
- **High Impact Project Review** to provide staff with greater flexibility in structuring loans to meet the unique needs of these critical projects. By design, high impact projects will likely include exceptions to the Guidelines, and therefore require Executive Director or Prosper Portland Board approval.

Underwriting staff are creating risk rating tools tailored to each lending product given that their risk profiles are different (see Attachment B for a sample Commercial – Tenant Improvement Loan Risk Rating).

EQUITY IMPACT

As outlined above, the Guidelines remove loan-to-value, equity, and leverage requirements, which are often barriers in reaching underserved markets. While these will still be evaluated as part of the loan underwriting process, staff will have broadened flexibility to put this information into the context of the individual transaction and loan conditions with risk ratings set accordingly.

Prosper Portland’s lending has direct impacts on the borrowers who receive the financing as well as the individuals and small businesses who benefit from Prosper Portland’s Construction Business and Workforce Equity Policy and Green Building Policy. Below is a summary of borrower demographics between July 1, 2021, through February 14, 2024.

	Business Lending				Commercial Real Estate Loans				All Loan Programs			
	# of Loans	% of Loans	Loan Amount	% of Dollars	# of Loans	% of Loans	Loan Amount	% of Dollars	# of Loans	% of Loans	Loan Amount	% of Dollars
Asian	5	15%	\$3,781,000	43%	0	-	0	-	5	11%	\$3,781,000	28%
Black or African American	9	28%	1,189,936	14%	9	75%	538,014	14%	18	40%	1,808,565	14%
Hispanic or Latino/a/x	8	24%	2,115,000	24%	1	8%	100,000	2%	9	20%	2,215,000	17%
Not reported	1	3%	100,000	1%	0	-	0	-	1	2%	100,000	1%
White	10	30%	1,550,708	18%	2	17%	3,787,000	84%	12	27%	5,337,708	40%
Total	33	100%	\$8,736,644	100%	13	100%	\$4,505,629	100%	45	100%	\$13,242,273	100%

COMMUNITY PARTICIPATION AND FEEDBACK

Over the course of 2022, 2023, and 2024, Prosper Portland staff convened a diverse group of community partners with real estate development and finance experience to provide feedback on Prosper Portland’s lending programs. This group’s feedback was critical in the design of the Guidelines, including

the extended amortization and due date periods, repayment structures that include capitalized and interest-only options, and considerations of high impact projects.

BUDGET AND FINANCIAL INFORMATION

There are no direct, immediate budget implications from this action. As noted, the Guidelines have been crafted to intentionally meet the agency's Financial Sustainability Plan.

RISK ASSESSMENT

Once implemented, risks are inherent with every loan. These risks are mitigated in multiple ways. On a transactional level, each loan is underwritten by a skilled lending professional and secured by the best available collateral. The loan underwriting includes a Risk Rating Review that assesses the risk of that transaction and prices the loan accordingly. Higher risk loans generally result in a high interest rate at closing. Each loan is also reviewed by the internal Committee for Accountability of Finance and Equity to ensure it conforms to Guidelines or to approve any exception to policy. Risks are mitigated on a portfolio level by budgeting a 30 percent interest loss reserve and a 30 percent principal loss reserve. These reserves are reviewed periodically to confirm that they remain adequate based upon the current performance of the loan portfolio.

ATTACHMENTS

- A. Loan Review Process
- B. Commercial – Tenant Improvement Loan Risk Rating

Loan Review Process

Introduction

Prosper Portland has redesigned its lending tools to support the Financial Sustainability, Advanced Portland, and Tax Increment District (TIF District) Action Plans by expanding access to capital to markets that have historically been neglected by traditional financial institutions, or where access to capital is constricted because of current market conditions. In both conditions, Prosper Portland's intent is to be a gap lender, providing financing to enable projects that align with its goals and objectives to proceed.

In expanding access to capital, Prosper Portland also wants to be transparent in its decision-making process. Applications will be evaluated in three key areas:

- Baseline Eligibility Review – does the loan request support Prosper Portland's stated strategic priorities, goals, and objectives (e.g., Advance Portland) and meet minimum underwriting standards?
- Risk Review – does the loan request achieve a minimum risk rating of "C"?
- Impact Review – does the loan request support additional Prosper Portland's stated "High Impact" goals and objectives (e.g., community-identified Action Plan priorities)?

These review categories are explained in more detail below.

Baseline Eligibility Review

All loan requests must meet Prosper Portland's baseline eligibility requirements, including:

- Demonstrated lack of access to capital or the scale of capital required for the project.
- Alignment with one or more Prosper Portland plans:
 - Advance Portland
 - TIF District Action Plans
 - Budget priorities in TIF Districts without an approved action plan
- Ability to achieve a minimum 1.10 debt service coverage ratio (DSCR.)
- Risk Rating of "C" or higher.

Risk Review

As part of the underwriting process, the loan officer will complete a risk rating worksheet. The risk review is customized to the type of project being financed and includes such components as project risk, management/development experience, and collateral quality. The purpose of the risk rating is to assess the:

- Probability of default,
- Exposure at default,
- Loss given default (after recovery from any collateral),
- And, to inform pricing.

Any risk rating below a "C" is considered a material exception to policy and would require Board or Executive Director approval, as applicable.

High Impact Project Review

High Impact projects support community-identified priorities included in approved TIF District Action Plans or if no action plan exists for a particular TIF District, that the priorities are reflected in the agency's annual budget and the priority was co-created with significant community engagement.

Prosper Portland has a particular interest in seeing that these projects have the greatest opportunity to succeed and will consider exceptions to the standard program guidelines. Loan officers are authorized to consider customized deal structures to meet the unique needs of these projects. This could include (but is not limited to) extended capitalized and interest-only periods, stepped interest rates, or longer amortization periods.

For fiscal years 2023-24 and 2024-25, the following plans guide Prosper Portland's goals and objectives for High Impact Projects:

- [Cully Action Plan is in development](#)
- [Gateway Action Plan](#)
- [Lents Action Plan](#)
- [N/NE Action Plan](#)
- [Old Town Action Plan](#)

CONSTRUCTION & TENANT IMPROVEMENT LOAN RISK RATING - 2-26-24								1 = Low Risk 5 = High Risk
Management		Weighted Score	Assigned Rating	1	2	3	4	5
	Applicant Years of Experience	8.333%	1	>= 10 years	>= 8 years	>=5 years	>=3 Years	<=3 year
	Development Team Experience	6.667%	2	>= 10 years	>= 8 years	>=5 years	>=3 Years	<=3 year
	Financial Management System/Processes	3.333%	4	Dedicated bookkeeper on staff/or contract, accountant prepared financial statements	Accountant prepared financial statements	Company has adequate financial systems in place and produces internal financial statements including budgets	Financial systems are inadequate, company does not produce timely or reliable financial statements and does not work off of a budget.	No financial systems are in place.
Collateral			Assigned Rating	1	2	3	4	5
	Type of Collateral	12.500%	1	Benefit Assessment Lien	First Deed of Trust	Second Deed of Trust	Third Deed of Trust	Fourth Deed of Trust
	Loan to Value (LTV)	10.000%	2	<=70%	<>71%-80%	<>81-90%	<>91%-100%	>100%
Project Risk			Assigned Rating	1	2	3	4	5
	DSCR	10.000%	1	>1.40	<>1.31-1.40	<>1.21-1.30	<>1.10-1.20	>1.10
	Loan Amount	10.000%	1	<\$500,000	<>\$500,001-\$1M	<>\$1,000,001-\$2.5M	<>\$2,500,001-\$5M	>\$5M
	Owner Cash Reserves as % of construction budget	4.000%	4	10.00%	7.50%	5.00%	2.50%	0.00%
	Preleasing/Presales	10.000%	1	100% Pre-sold/Pre-leased or residential rental project	75% Pre-sold, Majority pre-leased to major anchor tenant	50% Pre-sold/Pre-leased with no anchor	25% Pre-sold/Pre-leased with no anchor	No presales, or pre-leases
	Other Funding Commitments	6.000%	3	100% of construction financing is place and ready to close. Senior financing will roll over to long term permanent debt at stabilization.	100% of construction financing is place and ready to close. Senior financing will roll over to mini-perm debt at stabilization.	100% of construction financing is in place and ready to close. Senior financing is committed, but conditioned upon project achieving assigned DSCR and other conditions.	Prosper's loan will close before all financing commitments are in place.	Prosper's loan is land for acquisition only, no other financing is yet committed to the project.