

Commission Agenda Item Cover Sheet

6/30/2018

TO: Oregon Business Development Commission
FROM: John Saris, Finance Manager, Business Oregon
SUBJ: Transfer of Funds from OBDF Program to CAP Program

Business Finance and the Oregon Business Development Commissions Finance Committee are requesting that the Commission approve a \$500,000 fund transfer from the Oregon Business Development Fund (OBDF) to the Capital Access Program (CAP) to meet current program demand.

Finance Committee Background:

In the early 1990's, the Commission established a Finance Committee to act as its designee on matters related to Business Finance. The Commission appoints five or more members to the Finance Committee. All current Committee members live and work in Oregon. The chair of the Commission recommends Finance Committee appointments based upon review by the Finance Committee and recommendation by the Department. A majority of the Finance Committee members are experienced commercial lenders.

The Commission considers the recommendation of the Finance Committee to be an impartial, independent expert opinion that the proposed transaction will hold a likely opportunity for success and of repayment. The Finance Committee maintains high standards in their review and consideration of the Business Finance staff recommendations, research, detailed financial analysis, credit structuring and loan conditions. Those high standards protect the department programs from loss to the greatest extent possible. The Finance Committee members include representatives with experience in:

- Commercial lending,
- Financial services, and
- C-level management experience.

At the time of application, the Business Oregon Finance Committee consists of the following members:

- **Committee Chair Wes Price** (Harrigan, Price, Fronk & Co., Partner & CPA)
- **Vice-Chair William Humphries, Jr** (Citizens Bank, VP & Senior Commercial Loan Officer)
- **Member George Koffler** (Retired from Bank of Eastern Oregon, Chief Credit Officer)
- **Member R. Wade Moseby** (Retired from Collins Companies, Senior Vice-President)
- **Member Rosemary Lint** (Independent Financial Advisor)
- **Alternate Member Gary O'Connell** (Summit Bank, Central Oregon Market President)

By OBDF statute ORS 285A.080(3), any loan of \$250,000 or more must be approved by the Oregon Business Development Commission or, via the delegated authority of the Commission, its designee, the Finance Committee. The Finance Committee, as designee of the Commission, has final authority to approve or deny loans and guarantees. As such, the Finance Committee is responsible for ensuring that the applications for

credit satisfy the criteria provided in applicable statutes and rules. Those criteria may include, but are not limited to, the following considerations:

- The applicant performs work in an eligible industry;
- The loan is sufficiently secured by collateral;
- The project is feasible;
- The loan has a reasonable prospect of repayment;
- There is a need for the proposed business development project;
- There is a commercial or private lender, or a local development group participating in the project;
- There is an economic benefit resulting in job creation or retention associated with the project; and,
- The other terms, conditions and preferences found in ORS 285B.050-.098, ORS 285B.200-.218, OAR 123-021 and OAR 123-017 are properly satisfied.

In addition to meeting with staff to review new loan requests, the Finance Committee also regularly meets with staff to review the individual program loan portfolios and evaluate their performance, manage portfolio risk, and review recommendations to the Commission and the Oregon Legislature prepared by staff. The comprehensive portfolio review performed by the Finance Committee includes all Finance Committee and Department approved business finance loans and loan guarantees.

Statement of Need for the Capital Access Program (CAP):

CAP helps regulated lenders (banks and credit unions) offer more commercial loans and lines of credit to small businesses, improving the availability of capital for start-up or expansion. The program is designed for non-profit and for-profit businesses seeking funds for most business purposes.

All types of loans and lines of credit are eligible. Lenders build a loan-loss reserve each time they enroll a loan. The Oregon Capital Access Program matches contributions to the loan-loss reserve account.

CAP loans:

- Have enrollment fees between 3% and 7% as determined by the financial institution,
- Will receive a match on the enrollment fee of up to \$35,000 per borrower, and
- Have rates and terms for repayment determined by the lender.

CAP loans may not be used to:

- Purchase or improve residential housing,
- Purchase or improve real property not used for business operations, or
- Refinance an existing balance of a non-enrolled loan.

Recent CAP Transfers, Appropriations, and Lending Activity:

The last appropriation from the Legislature to the program was \$1,000,000 in the 1991-93 biennia. Since that time, fund transfers from OBDF have supported the program and, to date, the OBD Commission has authorized \$3.15 million in transfers. The most recent occurred in 2009-11 when the Commission approved a transfer of \$450,000 from OBDF to CAP. The only other outside infusion of capital to the CAP fund occurred in 2012 when \$317,315 of federal funding was awarded to the program.

Since, July 1, 2011, Business Oregon has enrolled 194 loans, leveraging \$18.9 million of private capital, which is projected to help these small businesses create and/or retain 1,049 jobs. The average enrollment fee matched by the CAP fund was approximately \$2,700. This program does serve segment of Oregon's smallest businesses with most applicants having five or fewer employees at the time of application.

Recommendation:

At this time, Business Finance is recommending a \$500,000 transfer from OBDF to CAP to continue to meet program demands. The cash balance of the CAP fund, as of June 19, 2018, is \$12,504.

As of June 19, 2018, the status of the OBDF cash account was:

OBDF Cash Balance	\$21,088,235
- SBELF Transfer (SB 1516)	(\$5,000,000)
- Allowance for Loan Loss	(\$4,212,432)
- Loan Commitments	(\$1,355,000)
- Current Pipeline	(\$3,763,600)
- Proposed July 2018 Transfer to CAP	(\$500,000)
 Projected Cash Available	 \$6,257,203

The Business Finance team estimates that the recommended \$500,000 transfer will provide adequate capital to continue operating CAP into the 2021-23 biennium. As demonstrated by the table above, while OBDF program demand is increasing, there remains adequate resources to meet current and projected demand.

Requested Action:

- Informational only
 For commission input/discussion
 For commission action

	Amount	
	Approved	
Transfer of Funds from OBDF to CAP	\$500,000	<input type="checkbox"/> Yes <input type="checkbox"/> No

Comments:

Kanth Gopalpur, Chair, OBD Commission