



Oregon Credit Enhancement Fund

Program Description

Business Loan Insurance Programs

The Oregon Economic & Community Development Department's Credit Enhancement Fund is designed to help businesses that are having difficulty accessing conventional financing. The Credit Enhancement fund provides lenders with additional security, thereby encouraging greater lender activity to Oregon businesses. In agreeing to insure a business loan, the department assumes responsibility for up to 90 percent of a loan made by a lender should the business default or otherwise be unable to make scheduled payments.

Application Procedure

The process starts when eligible business borrowers apply to their lender for conventional financing. The department cannot consider a loan insurance application unless it is submitted by a lender and it is accompanied by supporting documentation, including a lender's analysis. Once the lender submits an application along with all required information to the department, the application is thoroughly reviewed. A written notice of approval or denial will typically be sent to the lender requesting loan insurance within 10 business days, although verbal notice is typically given within five business days.

Approval notices are issued in the form of Loan Insurance Authorization Agreements, which must be signed by the department and lender prior to the insurance taking effect along with the loan insurance premium described later in this program description. In addition, the lender and the department must have an executed master Loan Insurance Agreement in effect. A borrower may appeal denials to the Finance Committee of the Economic & Community Development Commission.

A complete loan insurance application includes the information and materials described in the attached General Information Sheet. Prior to submitting an application, lenders are encouraged to call the Business Finance Section at the department, 503-986-0172, to assure a request will be eligible and to review

Eligible Borrowers

the information that must be submitted with an application. With the exception of the attached General Information Sheet and possibly the Environmental Questionnaire (if lenders do not have their own comparable one) a lender submits all required application information and materials on their own forms or formats. Lenders also use their own loan closing documents.

Eligibility Defined

To participate in the department's Insurance Programs, a business entity cannot employ more than 200 full-time employees. Unless located in a distressed area, the company must sell goods and services in markets where national and international competition exists. This definition includes manufacturers, processors, natural resource industries, distribution facilities, convention centers, destination facilities or businesses engaged in new technology qualify. *In distressed areas of the state, all types of businesses qualify.* Any company cleaning up a brownfield site also may qualify.

Specifically ineligible businesses (except in distressed areas and for brownfield remediation) include: retail, food service, professional services, construction and newspapers.

The Economic & Community Development Department is required to give preference (i.e., setaside of guarantee authority) to business that qualify as emerging small businesses.

A complete listing of eligible businesses is provided on the attached Application and General Information Sheet. A list of distressed areas of the state also is attached.

Loan Terms

Eligible Uses of Loan Proceeds

Loans for most prudent business activities, such as acquisition of real or personal property, export financing and working capital (including receivable and inventory financing) are eligible for the Economic & Community Development Department's loan insurance.

Loan Insurance Programs

The department will consider requests for refinancing of existing debt on a case by case basis, based on the financial benefits of refinancing to the business, the likelihood of existing creditors sustaining a loss, the prospects for success, and overall public benefits. The department will approve such requests on a highly selective basis, except where refinancing is necessary to secure collateral. The department may require lenders to extend the term of that portion of a loan that represents refinancing of existing debt.

The department will consider requests to acquire existing businesses based on the extent to which an acquisition is accompanied by expansions/improvements or acts to preserve jobs that might otherwise be lost.

Ineligible uses include: personal, family, or household expenses of the borrower or any guarantor; residential housing; office buildings; and construction loans.

Conventional Insurance

With Conventional Insurance, the department will insure up to 90 percent of a business loan on a pro-rata basis with maximum loan insurance of \$500,000. Should the business default or otherwise be unable to make payments, the department will pay the lender the insured portion of any deficiency (principal, accrued interest, liquidation costs) up to the lesser of an amount equal to the approved insured percentage of the loan at the time of origination or \$500,000.

First loss Insurance

With First Loss Insurance, the department provides loan insurance for any loss incurred by the lender up to the lesser of 25 percent of the principal outstanding at the time of default plus default charges or \$300,000. Maximum insurance is 25 percent of the original loan amount. Proceeds of collateral are applied first to the uninsured portion of a loan. The First Loss Program provides 100 percent coverage of a lender's exposure provided liquidation value equals or exceeds 75 percent of the outstanding loan balance.

Comparative Example of Conventional and First Loss Insurance Programs

Assume a lending proposal involving the purchase of equipment. The lender agrees to make a \$400,000 loan secured by equipment valued at \$500,000 or 80 percent of the collateral value. A five-year, equal monthly payment loan is made at 8.5 percent. The Borrower defaults on the 37th payment. Liquidation expenses are \$3,000. Proceeds of liquidation total \$100,000.

In this example, if liquidation proceeds were \$138,615 instead of \$100,000, the lender would incur no loss at all with First Loss. In this example, if liquidation proceeds were \$138,615 instead of \$100,000, the lender would incur no loss at all with First Loss.

	Conventional Insurance	First Loss Insurance
1. Loan Amount	\$400,000	\$400,000
2. Initial Insured Loan Amt.	\$360,000 (90%)	\$100,000 (25%)
3 a. Principal Outstanding	\$180,541	\$180,541
b. Accrued Interest	\$1,279	\$1,279
c. Liquidation Expense	\$3,000	\$3,000
4. Total Default Charges	\$184,820	\$184,820
5. Liquidation Proceeds	\$100,000	\$100,000
6. Deficiency	\$84,820	\$84,820
7. OECD Insurance Pmt.	\$76,338	\$46,205
	(90% of 6)	(25% of 4 Total)
8. Lender Loss	\$8,482	\$38,615

Insurance but would incur a loss of \$4,620.50 with Conventional Insurance. Thus, if lenders are reasonably confident liquidation value will equal or exceed 75 percent of the declining loan balance, the First Loss Insurance Program is preferable to Conventional Insurance. In addition, First Loss Insurance premiums cost the borrower less than Conventional Insurance.

The Conventional and First Loss Insurance Programs are available for all types of loans, except working capital loans or lines of credit predominately secured by inventory and accounts receivable. The department's Evergreen Entrants and Evergreen Plus Programs described later provide insurance for these types of credit facilities.

Insurance for Revolving Lines of Credit for Working Capital

These and the department's Evergreen Entrants and Evergreen plus Insurance Programs provide varying limitations on the department's maximum insurance liability. The department does not, however, limit the size of loans lenders can make under its Insurance Programs. In the case of larger loans, the department's maximum insurance exposure would act to decrease the percentage of the loan that could be insured. For example, with Conventional Insurance, the department could insure up to 90 percent of a \$555,555 loan but only 50 percent of a \$1 million loan, since the department's maximum exposure is limited to \$500,000.

The department's Working Capital Insurance Programs provide insurance on revolving working capital loans or lines of credit that are not intended to be paid in full within one year and are predominately secured by accounts receivable and inventory. Receivable and inventory financing secured predominately with fixed assets are eligible under the department's Conventional and First Loss Programs.

Evergreen Entrants Program

The Evergreen Entrants Program works like the Conventional Program, except it is targeted to working capital loans. This program is intended for borrowers who have been unable to secure working capital loans or lines of credit and/or borrowers about to be without such loans, provided they are creditworthy. Under this program, the Oregon Economic & Community Development Department may insure up to 75 percent, on a pro-rata basis, of a working capital loan or line of credit with maximum insurance of \$250,000. The maximum term of the insurance is an initial one-year term and four annual renewals. Should a business default, the department's insurance obligation would be limited to the lesser of the approved insured percentage of the loan at the time of origination or \$250,000. To participate in this program, the department must be satisfied the lender has the capacity to service the loan in accordance with adequate monitoring and control procedures.

Evergreen Plus Program

Under the department's Evergreen Plus Insurance Program, the department may insure up to 90 percent of a new increment of a line of credit working capital loan, with maximum insurance of \$300,000. The program is intended to increase existing lines of credit or loans for borrowers that have been able to obtain revolving lines of credit or loans for borrowers that have been able to obtain revolving lines of credit but not in amounts sufficient to meet their needs. If a lender makes a payment request for any deficiency remaining after liquidation of collateral and payment by any guarantors, the department's obligation would be limited to the lesser of (a) a ratable share of total default charges or (b) 90 percent of the deficiency. The formula for calculating the department's ratable share of total default charges is:

$$\frac{\text{Guaranteed loan amount}}{\text{Total credit facility made available}} \times (\text{Principal outstanding upon default} + \text{accrued interest and liquidation costs})$$

The maximum term of the insurance is an initial one-year term plus four annual renewals. To participate in the Evergreen Plus program as an insured lender, a lender must have in place and operating a lending program specializing in loans secured by accounts receivable and inventory, satisfactory to the department. If not, the department may require additional monitoring and control procedures.

Evergreen Plus Insurance Examples

Assume a borrower needs a \$740,000 revolving line of credit. The loan is secured by raw material inventory. The lender is willing to loan up to 40% against raw material inventory. With eligible inventory of \$1,400,000, the maximum available to a borrower is \$560,000. The lender cannot loan the additional \$180,000 without loan insurance. The following example shows how the Evergreen Plus Program works should the borrower default:

	Exmp. #1	Exmp. #2	Exmp. #3
1. Borrower's existing line of credit:	\$560,000	\$560,000	\$560,000
2. Additional loan amount:	\$180,000	\$180,000	\$180,000
3. Guaranteed loan amount:	\$162,000	\$162,000	\$162,000
4. Total credit facility/loan:	\$740,000	\$740,000	\$740,000
5. Principal outstanding upon default:	\$500,000	\$740,000	\$740,000
Accrued interest:	\$20,000	\$20,000	\$20,000
Liquidation costs:	\$10,000	\$10,000	\$10,000
6. Total default charges:	\$530,000	\$770,000	\$770,000
7. Liquidation proceeds:	\$350,000	\$660,000	\$400,000
8. Deficiency:	\$180,000	\$110,000	\$370,000
9. OECDD insurance payment:	\$116,027*	\$99,000**	\$162,000***
10. Lender loss	\$63,973	\$11,000	\$208,000

*Department's insurance payment is calculated as follows: $\$162,000 / \$740,000 \times \$530,000 = \$116,027$.

**Department's insurance payment is based on the deficiency, calculated as $0.9 \times \$110,000$.

***Department's insurance payment is based on the maximum insurance limit, \$162,000.

Eligible Lenders

Eligible lenders are financial institutions as that term is defined in ORS 706.005, including banking institutions, trust companies, national banks, extranational institutions, foreign institutions, federal associations, savings associations and credit unions. The department must be satisfied that lenders are capable of originating and servicing loans under the program parameters. The department and lender must execute a master Loan Insurance Agreement.

Interest Rate and Term

Interest rates and terms are negotiated between the borrower and the lender. The maximum term of the department's insurance is equal to the lesser of 15 years or the useful life of assets being financed, or one year plus four annual renewals for the Evergreen Plus or Evergreen Entrants Program.

Collateral

A mortgage or security interest in the project being financed and other available collateral is required to adequately secure repayment of the loan, as determined by the bank and the department on a case by case basis. Personal guarantees of the business owners with more than a 20% ownership interest are also required, unless waived by the department.

Insurance Premiums

The department charges a one-time (up-front) insurance premium. Premiums are due at the time lenders originate loans and execute Loan Authorizations with the department. The department's insurance is not effective until premiums are paid. It is expected that lenders will pass along the cost of premiums to borrowers. Premiums, expressed as a percentage of the insured loan amount, are charged in accordance with the following schedule for the Programs indicated:

Term	Conventional	First Loss
1 Yr.	1.25%	2.5% (0.625%)
2 Yrs.	1.50%	3.0% (0.75%)
3-4 Yrs.	1.75%	3.5% (0.875%)
5-7 Yrs.	2.00%	4.0% (1.0%)
8-11 Yrs.	2.50%	5.0% (1.25%)
12-15 Yrs.	3.00%	6.0% (1.5%)

Note: The percentages in parentheses represent the effective premium as a percentage of a total loan or credit facility made available to a borrower at the maximum insurance of 25 percent of a loan or credit facility.

The fee for the **Evergreen Entrants Program** is 1.25 percent annually; the fee for the **Evergreen Plus Program** is 2.5 percent annually.

For revolving lines of credit or evergreen facilities, the premium will be based on the total amount of the credit facility made available to a borrower, regardless of whether it is fully drawn down.

Examples:

- The premium due on a \$200,000, five year loan with 85 percent Conventional Insurance would \$3400 ($\$200,000 \times .85 \times .02$).
- The premium on an Evergreen Entrants 75 percent insured loan for \$200,000 would be \$1,875 ($\$200,000 \times .75 \times .0125$). This amount would be due every year thereafter for up to four additional years, assuming the loan and amount is renewed each year for the maximum term permitted under the Evergreen Entrants program (5 yrs.).
- The premium due on a \$200,000, eight year, 25 percent First Loss insured loan would be \$2500 ($\$200,000 \times .25 \times .05$).
- The premium due on a \$700,000 25 percent insured Evergreen Plus loan for one year would \$4375 ($700,000 \times .25 \times .025$). This amount would be due every year thereafter for up to four additional years, assuming the loan and amount is renewed each year for the maximum term permitted under the program (5 yrs.).

Disclosure and Confidentiality Statement

Certain information in the department's possession must be made available for public inspection. This information includes the names of applicants, including principals; the amounts types and general terms of financial assistance; project descriptions; and lenders participating in the program.

Certain records of the department are designated confidential and will not be available to the public for inspection pursuant to ORS Chapter 192, unless the public interest by clear and convincing evidence requires disclosure. These include: reports and analyses of reports obtained in confidence from creditors, employers, customers, suppliers and others which bear on the applicant's

character, finances, management ability and reliability and which were obtained from persons or firms not required by law to submit them (lender's credit analysis, business credit reports, etc.).

Additional confidential records include: financial statements, tax returns, business records, employment history and other personal data submitted by or for applicants, or analysis of such data; formulas, plans, designs and related information which constitute trade secrets under ORS Chapter 192; personal financial statements; customer lists; production, sales and cost data; information of an applicant pertaining to litigation to which the applicant is a party if the complaint has been filed, or if the complaint has not been filed, if the applicant shows that such litigation is reasonably likely to occur—this exemption does not apply to litigation which has been concluded and nothing in this statement can limit any right or opportunity granted by discovery or deposition statutes to a party to litigation or potential litigation; and marketing strategy information that relates to an applicant's plan to address specific markets and applicant's strategy regarding competitors.

Applicants may wish to consult their attorney or the Attorney General assigned to the department's business loan insurance programs as to the scope of public disclosure and confidentiality matters under ORS Chapter 192.



OREGON

Oregon Credit Enhancement Fund Application:

General Information Sheet

In addition to the attached General Information Sheet, a complete loan insurance application will include the information listed below. An application will be deemed complete for processing when the application package, complete with the lender loan analysis and supporting information is received by the Oregon Economic & Community Development Department. The information required by the department is consistent with that required by lenders on uninsured loans, permitting lenders to copy such information from their loan files. The department intends to accept and review the same information the lender obtains to make its credit decision. The department looks to the lender to obtain and provide all necessary information upon which to evaluate a request for loan insurance. The department reserves the right to request additional information.

Prior to submitting an application, lenders are encouraged to call Business Finance at the department, 503-986-0172, to assure a request will be eligible and to review information requirements. A complete application will normally consist of the following:

- The completed General Information Sheet signed by the borrower and lender.
- A written narrative by the lender analyzing the borrower's application (i.e., credit analysis), including a business history and description, an identification of the proposed amount of the loan, the purpose, terms and conditions of the loan, a description of the collateral and basis for its valuation, a summary of the business's and the owner's/ guarantor's credit standing, a spreadsheet of financial statements, a list of all partners or stockholders with 20 percent or more ownership and guarantors and a description of other sources of financing for the proposed eligible project. A lender's credit analysis will suffice if it contains items in this paragraph.

- Resumes of the borrower, all partners, 20 percent shareholders, officers and guarantors, as applicable.
- Historical business financial statements for the prior three years, including income statements and balance sheets (income tax returns may also be required), as applicable, if an existing business. Income tax returns may be sufficient if accountant prepared statements are unavailable. Interim financial statements must also be included if the most recent statements are beyond 90 days.
- Signed current personal financial statement(s) of owners with a minimum (20 percent ownership interest in the business and all guarantors. Federal tax returns may be required.
- Pro forma balance sheet and income statement with supporting assumptions, if required by the lender. Monthly cash flow statements are required in cases where loan repayment is dependent on projections, and for projects seeking working capital financing.
- Completion of the department's Environmental Questionnaire or a comparable one provided by the lender and approved by the department for loans secured in whole or in part by real property, or if requested by the department.
- Supplemental Information. The department may require, at its discretion:
 - Appraisals of collateral or the lender's basis for determining collateral value.
 - A business or marketing plan, including an analysis of competition.
 - Copies of leases or purchase agreements, as applicable.
 - * Repayment history (if financing an existing borrower).
 - Any other information or certifications from the borrower or lender deemed by the department to be necessary or desirable in connection with an insured loan application.

General Information Sheet

A. Company Information (Borrower)

Business Name /DBA _____

Address of Business _____

City _____

State _____

Zip _____

Company Contact _____

Telephone _____

Title _____

Fax _____

Type of Business: Proprietorship Partnership Corporation: S-Corp. C-Corp.
 Limited Liability Corp. Other (please specify) _____

Date Established in Oregon: _____ State of Incorporation: _____ SIC Code: _____

Number of new full-time jobs this financing will create (to convert part-time employees to full-time equivalents, total annual hours of part-time employees and divide by 2080) _____

Number of existing full-time jobs retained (also convert part-time to full-time employees) _____

Average annual wage of new or retained jobs: _____

B. Lender Information/Guarantee Request

Lender's Name (financial institution) _____

Lender Contact/Lending Officer _____

Address _____

Title _____

Telephone: _____

Fax: _____

C. Program/Guarantee Request

1. Conventional \$ _____ % Percent Guarantee Requested (Max. 90%)
Loan Amount

2. First Loss \$ _____ % Percent Guarantee Requested (Max. 25%)
Loan Amount

3. Evergreen Entrants \$ _____ % Percent Guarantee Requested (Max. 75%)
Incremental Loan Amount

4. Evergreen Plus \$ _____ % Percent Guarantee Requested (Max. 90%)
Incremental Loan Amount

Guaranteed Loan Amount: \$ _____

Current Credit Facility with Borrower: _____

D. Eligibility

The borrower/project must meet the following eligibility tests: (1) Qualified Borrower; and (2) Employment Size. The lender or borrower should contact the department with any questions concerning eligibility.

1. Qualified business borrower.

Business borrowers must meet the following definition: "Qualified Business" means any existing or proposed business entity that, *except in a distressed area*, sells goods or services in markets for which national and international competition exists. The test for "selling goods or services in markets for which national or international competition exists" shall be met for an existing or prospective business entity that will result in or will aid, promote or facilitate, development of one or more of the following activities;

- | | |
|---|---|
| (a) Manufacturing or other industrial production; | (b) Food processing; |
| (c) Aquaculture development or seafood processing; | (d) Convention facilities or trade centers; |
| (e) Destination facilities other than retail or food service; | (f) Transportation or freight facilities; |
| (g) Distribution facilities; and | (h) Other activities, as approved by the department, that represent new technology or diversifying activity; or |
| (i) Any business cleaning up a brownfield site may qualify; and | (j) Any business in a distressed area (see attached list); |

The following businesses are ineligible (except in distressed areas or those that are cleaning up a brownfield site):

Retail businesses, shopping centers and food service facilities; construction firms; motels or bed and breakfast hotels, without unique attraction facilities; RV parks; professional services for medicine, law, dentistry or finance; athletic, racquetball, handball clubs, private membership clubs and golf courses; sand and gravel facilities; and newspapers.

Borrower's business is a "Qualified Business"? Yes No

If yes, circle which of the above activities/businesses (a-j) is applicable.

2. Employment Size Eligibility

A business entity cannot have an average annual employment of more than 200 full-time employees at the time of application. To determine employment size eligibility: For firms in business longer than 12 months preceding the date of application, divide the sum of each month's full-time employment levels in the previous year by 12. For firms in business less than 12 months preceding the date of application, determine the average monthly employment level for the months the firm was in business. For new businesses, determine the number of employees at the time of application. Convert part-time employees to full-time equivalents by totaling the annual hours of part-time employees; then divide this amount by 2080.

Current Employment Size _____

Applicant's business has an average annual employment of less than 200 full-time employees. Yes No

E. Preference

The legislation creating the Credit Enhancement Fund established a “set-aside” for emerging small businesses. Please answer the following questions.

An emerging small business meets all of the following eligibility tests:

- A business with its principal place of business located in Oregon
- A business with average annual gross receipts over the last three years of less than \$300,000
- A business with less than 20 employees
- An independent business which is not a subsidiary or parent company belonging to a group of firms owned and controlled by the same individuals
- A business properly licensed and legally registered in Oregon

Borrower's business is an emerging small business?

Yes No

In addition, the undersigned requests that the Oregon Employment Department provide employment and wage information from the Oregon Quarterly Tax Report to the Oregon Economic & Community Development Department for the purpose of program evaluation and performance measurement.

Prospective Borrower/Lender Certification

I represent that I am the individual authorized to complete this application, and I also certify that the information provided is to the best of my knowledge true and accurate and fairly presents the business and financial status of the prospective borrower. I certify that I understand that OECDD is not a co-guarantor or co-surety of the borrower for the loan. I further certify that I have read and understand the Disclosure and Confidentiality Statement.

Representative of Prospective Borrower	Representative of Lender
_____ Signature	_____ Signature
_____ Print/Type Name	_____ Print/Type Name
_____ Title	_____ Title
_____ Date	_____ Date

Oregon Credit Enhancement Fund Application

Attachment I

Minority or Woman-Owned Business Status

Is more than 50 percent of the company owned by a woman or minority?

Minority	<input type="checkbox"/> Yes	<input type="checkbox"/> No
Women	<input type="checkbox"/> Yes	<input type="checkbox"/> No

Note: Providing this information is voluntary and will be used by the department for statistical purposes only.

Company Name

OREGON CREDIT ENHANCEMENT FUND



BUSINESS FINANCE
775 Summer Street N.E., Ste. 200
Salem, Oregon 97301-1280

503-986-0160
or at our web site at
www.econ.state.or.us/business_finance