CREDIT ENHANCEMENT FUND

Program Description

Business Oregon'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 an eligible business borrower applies to its 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 a complete application along with all required information to the department, the application is thoroughly reviewed, usually within 10 business days.

The insurance is not in effect until the Loan Insurance Authorization has been signed by the department and lender and the department has received payment of the loan insurance premium described later in the program description. In addition, the lender and the department must have an executed master Loan Insurance Agreement in effect. A borrower may appeal denial of insurance to the Finance Committee of the Oregon Business 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 discuss whether a request will be eligible and to review the information that must be submitted with an application. With the exception of the attached General Information Sheet and possibly the Environmental Questionnaire (if a lender does not have its own form), a lender submits all required application information and materials on its own forms or formats. Lenders also use their own loan closing documents.

Eligibility

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. *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.

A list of distressed areas is available at www.oregon4biz.com.

Loan terms and uses

Loans to finance 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 Business Oregon's loan insurance.

The department will consider requests for refinancing 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, overall public benefits and other considerations. The department may approve such request but only on a highly selective basis, except where refinancing is necessary to secure collateral. The department may require a lender 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 guarantor; residential housing; and construction loans.

Loan insurance programs for term loans

Conventional Insurance

With Conventional Insurance, the department may insure up to 80 percent of a business loan on a pro-rata basis with maximum loan insurance of $2,000,000. On a case-by-case basis the department may insure up to 90 percent of a business loan. Should a borrower which receives an insured loan default or otherwise be unable to make loan payments, the department will pay the financial institution an amount equal to the insured percentage times the lesser of the authorized loan amount or the deficiency. The balance of any loss is absorbed by the financial institution. Loan payments, the proceeds of collateral (including collection of guarantees), and any recovery after payment of a deficiency are applied pro rata to the portion of a loan insured through Conventional Insurance and the uninsured portion of the loan.

First Loss Insurance

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. With First Loss Insurance, the department will pay 100 percent of the deficiency of a loan, but the department's maximum liability under the First Loss Insurance shall be the lesser of (a) the insured percentage (which shall not exceed 25 percent) times the authorized loan amount, (b) the insured percentage (which shall not exceed 25 percent) times the outstanding balance of the loan, including accrued interest and reasonable costs and expenses of collection and liquidation of collateral exclusive of costs attributable to environmental problems, but not taking into account the proceeds of collateral liquidation and payments by guarantors, or (c) $300,000. Any recovery after payment of a deficiency is applied first to the uninsured portion of the loan and then to the portion of a loan insured through First Loss Insurance.

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 with an annual interest rate of 8.5 percent. The borrower defaults on the 37th payment. Liquidation expenses are $3,000. Proceeds of liquidation total $100,000.

	Conventional Insurance	First Loss Insurance
Loan amount	$400,000	$400,000
Initial insured loan amount	$320,000 (80%)	$100,000 (25%)
principal outstanding	$180,541	$180,541
accrued interest	$1,279	$1,279
liquidation expense	$3,000	$3,000
Total default charges	$184,820	$184,820**
Liquidation proceeds	$100,000	$100,000
Deficiency	$84,820*	$84,820
OBDD insurance payment	$67,856* *(80%)	$46,205** **(25%)
Lender loss	$16,964	$38,615

In this example, if liquidation proceeds were $138,615 instead of $100,000, the lender would incur no loss at all with First Loss Insurance but would incur a loss of $9,241 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 revolving lines of credit. The department's Evergreen Entrants and Evergreen Plus programs described later provide insurance for these types of credit facilities.

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 means that a smaller percentage of the loan is insured.

Insurance for revolving lines of credit for working capital

The department's working capital insurance programs provide insurance on revolving working capital loans or lines of credit with a maximum term of one year. These are predominately secured by accounts receivable and inventory, but may also be secured by fixed assets.

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 lines of credit and borrowers about to be without such loans, provided they are creditworthy. With Evergreen Entrants Insurance, the department may insure up to 75 percent of a line of credit working capital loan. Should a borrower which receives an insured loan default or otherwise be unable to make loan payments, the department will pay the financial institution the deficiency of the line of credit working capital loan times the insured percentage; provided that the department's maximum liability for any deficiency under the Evergreen Entrants Insurance is the lesser of $1,500,000 or an amount equal to the insured percentage of the authorized loan amount. The balance of any loss is absorbed by the financial institution. Loan payments, the proceeds of collateral (including collection of guarantees), and any recovery after payment of a deficiency are applied pro rata to the portion of a loan insured through Evergreen Entrants Insurance and the uninsured portion of the loan. To participate in the 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; provided that the department's maximum liability under the Evergreen Plus Insurance is $1,500,000 and the aggregate amount of the line of credit insured under any program does not exceed 80 percent of the total line of credit. 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 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 guarantors, the department's obligation is limited to the lesser of (a) a ratable share of total default charges or (b) the insured percentage times the deficiency or (c) $1,500,000. The balance of any loss is absorbed by the financial institution. Loan payments, the proceeds of collateral (including collection of guarantees), and any recovery after payment of a deficiency are applied pro rata to the portion of a loan insured through Evergreen Plus Insurance and the uninsured portion of the loan. The formula for calculating the department's ratable share of total default charges is:

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

The initial term of the insurance for Evergreen Entrants and Evergreen Plus programs is up to one–year term, plus up to four annual renewals. To participate in either 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 that is 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 percent 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 show how the Evergreen Plus Program works should the borrower default:

	Example 1	Example 2	Example 3
Borrower existing line of credit	$560,000	$560,000	$560,000
Additional loan amount	$180,000	$180,000	$180,000
Insured amount of loan	$162,000	$162,000	$162,000
Total credit facility/loan	$740,000	$740,000	$740,000
Principal outstanding on default	$500,000	$740,000	$740,000
accrued interest	$20,00	$20,00	$20,000
liquidation costs	$10,000	$10,000	$10,000
Total default charges	$530,000	$770,000	$770,000
Liquidation proceeds	$350,000	$660,000	$400,000
Deficiency	$180,000	$110,000	$370,000
OBDD insurance payment	$116,027*	$99,000**	$162,000***
Lender loss	$63,973	$11,000	$208,000

*Department's insurance payment is calculated: $162,000/$740,000 x $530,000 = $116,027

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

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

Eligible Lenders

Eligible lender are financial institutions as that term is defined in ORS 706.008, including banking institutions, trust companies, national banks, extranational institutions, foreign institutions, federal associations and credit unions. The department must be satisfied that lenders are capable of originating and servicing loans under the program parameter. The department and lender must execute a master Loan Insurance Agreement.

Interest Rate and Term

Interest rate 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 for the Conventional and First Loss programs, and one year plus four annual renewals for the Evergreen Plus and Evergreen Entrants programs.

Collateral

A lien 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 20 percent or more ownership interest also are required, unless waived by the department.

Insurance Premiums

Except as noted below, the department charges a one–time (up-front) insurance premium. The premium is due at the time the lender originates the loan and executes the Loan Authorization with the department. The department's insurance is not effective until the premium is 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 year	1.25%	2.5%	(0.625%)
2 years	1.50%	3.0%	(0.75%)
3–4 years	1.75%	3.5%	(0.875%)
5–7 years	2.00%	4.0%	(1.0%)
8–11 years	2.50%	5.0%	(1.25%)
12–15 years	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 a revolving line of credit, the premium will be based on the total amount of the credit facility made available to the borrower, regardless of whether it is fully drawn down.

Examples:

- The premium due on a $200,000, five year loan with 80 percent Conventional Insurance would be $3,200 ($200,000 x .80 x .02).
- The premium on an Evergreen Entrants 75 percent insured loan for $200,000 would be $1,875 ($200,000 x .75 x.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 years).
- The premium due on a $200,000, eight year, 25 percent First Loss insured loan would be $2,500 ($200,000 x .25 x .05)
- The premium due on a $700,000 25 percent insured Evergreen Plus loan for one year would be $4,375 (700,000 x .25 x .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 years).

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 amount, types and general terms of financial assistance; project descriptions; and lenders participating in the programs.

Certain records of the department will not be available to the public for inspection pursuant to ORS Chapter 192, unless the public interest 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 are obtained from persons or firms not required by law to submit them (lender's credit analysis, business credit reports, etc.). Other confidential records that are conditionally exempt 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. In addition, the following are exept from public disclosure: personal financial statements; customer lists; productions, 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 exemption 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 as to the scope of public disclosure and confidentiality matters under ORS Chapter 192.

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 Business Oregon. 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 discuss whether 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' 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 of the proposed 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 statement and balance sheets (income tax returns also may be required), as applicable. Income tax returns may be sufficient if accountant prepared statement are unavailable. Interim financial statements also must be included if the most recent statements are older than 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 return 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 on a form 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. At its discretion, the department may require:
  - 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 certification 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 ______________________ Business Identification Number (issued by Oregon Dept. of Revenue) ______________

Business address ______________ City ______________ State ______ Zip ______

Company contact ______________ Title ______________

Phone ______________ Email ______________ Fax ______________

Type of business: ☐ Proprietorship ☐ Partnership ☐ Corporation ☐ S-Corp ☐ C-Corp ☐ Limited Liability Corp

☐ Other (please specify) ______________ Employer/Taxpayer ID # (EIN/TIN): ______________

Date established ______________ State where incorporated or organized _____ NAICS code ______________

B. Lender Information/Guarantee Request

In submitting this application, Lender makes the warranties, representations and certifications specified for the Lender in Section 18 of the Oregon Credit Enhancement Fund Insurance Program Loan Insurance Agreement.

Lender's name (financial institution) ______________ Lender contact/lending officer ______________

Address ______________ Title ______________

Telephone ______________ Fax ______________ Email ______________

C. Program/Guarantee Request

Conventional $______________ Loan amount ______ % percent guarantee requested (max. generally 80%)

First Loss $______________ Loan amount ______ % percent guarantee requested (max. 25%)

Evergreen Entrants $______________ Loan amount ______ % percent guarantee requested (max. 75%)

Evergreen Plus $______________ Incremental loan amount ______ % percent guarantee requested (max. 90%)

Guaranteed loan amount $ ______________

Current credit facility with borrower ______________

D. Eligibility

The borrower/project must meet the eligibility requirements. The lender or borrower should contact the department with any questions concerning eligibility.

Qualified business borrower

Business borrowers must meet the following definition: "qualified business" means:

1. Outside of a distressed area, any existing or proposed business entity that sells goods or services in markets for which national and international competition exists, and will result in or will aid, promote or facilitate the development of one or more of the following activities shall be a qualified business:
   a manufacturing or other industrial production
   b food processing
   c aquaculture development or seafood processing
   d convention facilities or trade centers
   e transportation or freight facilities
   f distribution facilities
   g other activities, as approved by the department, that represent new technology or diversifying activity
2. Any business cleaning up a brownfield site may qualify
3. Any business in a "distressed area" may qualify

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

- retail businesses
- shopping center and food service facilities
- construction firms
- motels, hotels or bed and breakfasts
- RV parks
- professional services for medicine, law, dentistry or finance
- athletic, racquetball, handball and private membership clubs and golf courses
- sand and gravel facilities
- newspapers

Borrower's business is a qualified business? ☐ Yes ☐ No If yes, circle which of the above activities/businesses is applicable.

Borrower is legally registered to do business in Oregon? ☐ Yes ☐ No

E. Employment data

To determine employment size use the appropriate method described.

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 1820.

Current employment size (number of existing full–time equivalent jobs) ______________________

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 1820) ______________________

Number of full–time jobs that would end without this financing (also convert part–time to full–time employees) ______________

Average annual wage of new or retained jobs ______________________

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

F. Prospective borrower representations and warranties/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 the department 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.

In order to have its loan enrolled in the Oregon Business Development Department Credit Enhancement Fund Insurance Program, the borrower makes the following representations and warranties (**borrower initial each section as applicable**):

___ The proceeds of the loan will be used for a business purpose. A business purpose excludes acquiring or holding passive investments such as commercial real estate ownership, or the purchase of securities; and lobbying activities (as defined in Section 3(7) of the Lobbying Disclosure Act of 1995, P.L. 104-65, as amended).

___ The proceeds of the loan will not be used to:

i. repay delinquent federal or state income taxes unless the borrower has a payment plan in place with the relevant taxing authority;
ii. repay taxes held in trust or escrow;
iii. reimburse funds owed to any owner, including any equity injection or injection of capital for the business' continuance; or
iv. purchase of any portion of the ownership interest of any owner of the borrower.

___ The borrower, and any principal of the borrower, is not:

i. an executive officer, director, or principal shareholder of the lender, or
ii. a member of the immediate family of an executive officer, director or principal shareholder of the lender; or
iii. a related interest of any such executive officer, director, principal shareholder or member of the immediate family.

For the purposes of the above certification, the terms "executive officer," "director," "principal shareholder," "immediate family" and "related interest" refer to the same relationship to the lender as the relationship described in 12 C.F.R. Part 215.2 (1990), whether or not the lender is a member bank of the Federal Reserve System.

___ The borrower is not:

i. a business engaged in speculative activities that develop profits from fluctuations in price rather than through normal course of trade unless those activities are incidental to the regular activities of the business and part of a legitimate risk management strategy to guard against price fluctuations related to the regular activities of the business; or
ii. a business that earns more than half of its annual net revenue from lending activities unless the business is a non-bank or non-bank holding company community development financial institution;
iii. a business engaged in pyramid sales, where a participant's primary incentive is based on the sales made by an ever-increasing number of participants; or
iv. a business engaged in activities that are prohibited by federal law or applicable law in the jurisdiction where the business is located or conducted. (Included in these activities is the production, servicing, or distribution of otherwise legal products that are to be used in connection with an illegal activity); or,
v. a business engaged in gambling enterprises, unless the business earns less than 33% of its annual net revenue from lottery sales.

___ No principal of the borrower has been convicted of a sex offense against a minor (as such terms are defined in section 111 of the Sex Offender Registration and Notification Act, 42 U.S.C. 16911). For the purposes of this certification, "principal" is defined as:

i. if a sole proprietorship, the proprietor;
ii. if a partnership, each partner; and
iii. if a corporation, limited liability company, association or a development company, each director, each of the five most highly compensated executives, officers or employees of the entity, and each direct or indirect holder of 20% or more of the ownership stock or stock equivalent of the borrower.

Representative of prospective borrower

____
Signature

____
Print/type name and title

____
Date

Representative of lender

____
Signature

____
Print/type name and title

____
Date

Attachment 1

Minority or Woman-owned Business Status

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

Minority ☐ Yes ☐No

Woman ☐ Yes ☐No

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

____

Company name

business oregon
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