



# CREDIT ENHANCEMENT FUND

## PROGRAM DESCRIPTION

The Oregon Economic and 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 an eligible business borrower applies to their lender for convention financing. The department cannot consider a loan insurance application unless it is submitted by a lender and it is accompanied by supporting documentations, 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 the 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 and 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 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

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.

The Economic and Community Development Department is required to give preference (i.e., set-aside of guarantee authority) to businesses 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 AND USES

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

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 request on a high 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 request 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 and guarantor; residential housing; office building; and construction loans.

## LOAN INSURANCE PROGRAMS

### 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 \$700,000. Should the business default or otherwise be unable to make payments, the department will pay the lender the insured portion of and deficiency (principal, accrued interest, liquidation costs) up to the lesser of and amount equal to the approved insured percentage of the loan at the time of origination or \$700,000.

### 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 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 account receivable. The department's Evergreen Entrants and Evergreen Plus Programs described later provide insurance for these types of credit facilities.

	Conventional Insurance	First Loss Insurance
Loan amount	\$400,000	\$400,000
Initial insured loan amount	\$360,000 (90%)	\$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
OECD insurance payment	\$76,338	\$46,205
	(90% of 6)	(25% of 4)
Lender loss	\$8,482	\$38,615

These and the department's Evergreen Entrants and Evergreen plus Insurance Programs provide varying limitations on the department 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 \$777,777 loan but only 70 percent of a \$1 million loan, since the department's maximum exposure is limited to \$700,000.

## INSURANCE FOR REVOLVING LINES OF CREDIT FOR WORKING CAPITAL

The department's Working Capital Insurance programs provided 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 Entrant 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 and 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 \$300,000. 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 \$300,000. 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, 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 but not in amounts sufficient to meet their needs. If a lender makes a 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 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
Guaranteed loan amount	\$162,000	\$162,000	\$162,000
Total credit facility/loan	\$740,000	\$740,000	\$740,000
Principal outstanding on default	\$500,000	\$500,000	\$500,000
accrued interest	\$20,000	\$20,000	\$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
OECDD insurance payment	\$116,027*	\$99,000**	\$162,000***
Lender loss	\$63,973	\$11,000	\$208,000

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

\*\*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 lender 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 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 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 of the useful life of assets being financed, or one year plus four annual renewal for the Evergreen Plus or Evergreen Entrants Program.

## Collateral

A mortgage or security interest in the project begin financed an 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 20 percent ownership interest also are 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 departments. 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 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 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 Programs** is 1.25 percent annual; 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 make 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 be \$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 years).
- 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 be \$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 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 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 are 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; productions, sales and cost data; information of an applicant pertaining to litigation to which the applicant is a party if the complaint has 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 related 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 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 and 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 of 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 statement and balance sheets (income tax returns also may be required), as applicable. Income tax returns may be sufficient if accountant prepared statements are unavailable. Interim financial statements also must 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 return may be required.
  - Pro forma balance sheet and income statement with supporting assumptions, if required by the lender. Monthly cash flow statement 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. 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 \_\_\_\_\_

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) \_\_\_\_\_

Date established in Oregon \_\_\_\_\_ State of incorporation \_\_\_\_\_ NAICS code \_\_\_\_\_

---

## B. Lender Information/Guarantee Request

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

Address \_\_\_\_\_ Title \_\_\_\_\_

Telephone \_\_\_\_\_ Fax \_\_\_\_\_ Email \_\_\_\_\_

---

## C. Program/Guarantee Request

Conventional \$ \_\_\_\_\_ % percent guarantee requested (max. 90%)  
Loan amount

First Loss \$ \_\_\_\_\_ % percent guarantee requested (max. 25%)  
Loan amount

Evergreen Entrants \$ \_\_\_\_\_ % percent guarantee requested (max. 75%)  
Incremental loan amount

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 defining: “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
- h other activities, as approved by the department, that represent new technology or diversifying activity
- i any business cleaning up a brownfield site may qualify
- j any business in a distressed area (see attached list)

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

- retail business
- shopping center 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
- 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

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 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 existing full-time jobs** (also convert part-time to full-time employees) \_\_\_\_\_

**Average annual wage of new or retained jobs** \_\_\_\_\_

---

**E. Preference**

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 that qualifies as a Tier One or Tier Two business as defined below:
  - “Tier One firm” means a business that employs fewer than 20 full-time equivalent employees and has average annual gross receipts for the last three years that do not exceed \$1.5 million for a business performing construction, as defined in ORS 446.310, of \$500,000 for a business not performing construction.
  - “Tier Two firm” means a business that employs fewer than 30 full-time equivalent employees and has average annual gross receipts for the last three years that do not exceed \$3 million for a business performing construction, as defined in ORS 446.310, or \$1 million for a business not performing construction.
- An independent business that is not a subsidiary or parent company belonging to a group of firms that are owned or controlled by the same individuals if, in the aggregate, the group of firms does not qualify as a Tier One firm or Tier Two firm.
- 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 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.

**Representative of prospective borrower**

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Print/type name

\_\_\_\_\_  
Title

\_\_\_\_\_  
Date

**Representative of lender**

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Print/type name

\_\_\_\_\_  
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



---

**OREGON**

ECONOMIC & COMMUNITY DEVELOPMENT DEPARTMENT

775 Summer Street, NE, Suite 200 • Salem, OR 97301-1280  
503-986-0172 • Fax 503-986-0164 • Web <http://econ.oregon.gov/>

February 2008