



OREGON LEGISLATIVE POLICY, RESEARCH, & COMMITTEE SERVICES

State Capitol Room 453

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Basics About . . . **BUSINESS FINANCE PROGRAMS**

Access to capital is an important factor in the success and growth of all Oregon businesses but it is frequently very difficult for new or small business to obtain. Oregon has a variety of programs that are designed to help companies secure appropriate financing. These programs include loan guarantees, subordinated and direct loans, start-up capital, bond financing and tax exemptions or credits. Programs that provide tax credits and tax exemptions to qualifying businesses are described in a separate issue brief entitled "Business Investment Property Tax Incentives." The business finance programs are designed to assist businesses that would otherwise be unable to obtain capital. Lists of participating lenders are available from the Oregon Economic Development Department.

LOAN GUARANTEE PROGRAMS:

The **Capital Access Program**, ORS 285B.126 through 285B.153, was enacted in 1989 and is offered through the Oregon Economic Development Department. This program is designed to increase the availability of commercial loans to small businesses in Oregon by providing loan portfolio insurance to participating lenders, thereby allowing banks to extend loans that carry a greater risk than a conventional loan. Banks in Oregon may choose to participate in the Capital Access Program by enrolling with the department and establishing a loss reserve account for loans made under this program. The loss reserve account is funded by a loan fee paid by the borrower and contributions from the Economic Development Department in an equal or greater amount for every loan. The fund increases with every Capital Access Program loan that the lender makes, and provides the lender with a resource in the event of default.

The Capital Access Program provides lenders with an additional tool for funding loans to businesses with limited resources, but are nonetheless viewed as credit-worthy borrowers. Each loan is a private transaction that is negotiated and agreed upon by the borrower and the lender, and restrictions imposed by the program are minimal.

According to a report dated March 31, 1998, 33 participating lenders have used the Capital Access Program to provide 1,370 loans since the program was initiated in 1991. The total value of loans issued through the program is \$50,378,154, and total amount deposited in loan loss reserve accounts is \$2,278,843. The default rate on total loans issued under the program is 3.88%. 31% of total loans funded were for start-up businesses, and employers who borrowed money through the Capital Access Program created or saved 1,924 jobs. No funds were allocated for this program in 1997; rather, the department received money from another project fund to continue participation in the Capital Access program for the 1997-99 biennium. Under a sunset provision in the current law, this program will terminate in 1999, and the department will propose legislation in 1999 to eliminate or extend that date.

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In 1994 the **Oregon Credit Enhancement Fund**, ORS 285B.200 to 285B.218, was established, authorizing the Oregon Economic Development Department to pledge up to \$75 million in loans from financial institutions to eligible borrowers. This program is focused on companies doing business in the traded sectors. Retail businesses are not eligible for credit insurance under this program. The fund was initially capitalized with \$7.6 million of lottery funds and is expected to be self-funding through the payment of insurance premiums and earnings on the fund itself.

The Credit Enhancement Fund Program allows participating lenders to obtain credit insurance on loans to eligible borrowers whose collateral may otherwise be inadequate. The maximum loan amount for which a loan guarantee may be approved is \$500,000. The Department reviews and approves the loan guarantees. All loan applications are processed through participating lenders.

A report dated March 31, 1998 indicates that the department has guaranteed 107 loans since May 1994, with an average loan of \$227,264. The original fund of \$7.6 million has been leveraged to guarantee loans totaling \$24,317,323. To date all expenses for staffing and loan losses are met with income of the fund. Industries that have received the greatest number of loans under this program are agriculture, forest products and metals, in that order. More than 52% of the loans were made to businesses in rural areas of Oregon and 13% have been made to emerging small businesses. The department will propose legislation in 1999 to allow all types of businesses to qualify for this program if they are doing business in distressed areas of the state.

DIRECT LOAN PROGRAMS:

The **Entrepreneurial Development Loan Fund**, Chapter 688, Oregon Laws 1991, ORS 285B.269, was initiated in 1991 to address the needs of timber communities. In 1993 the program was expanded to include the entire state. Applicants for these loans must enroll with a Small Business Development Center or other certified entity to receive counseling in business management and to prepare a certified business plan.

The loans available through this program are targeted for new, small businesses that can show a reasonable prospect for repayment of the loan and provide collateral. The maximum loan amount is \$25,000, with a follow-up loan of \$15,000 and the interest rate is a fixed rate of two points above prime. All loans under this program are originated, funded and administered by the department.

The loan fund was capitalized with \$1.6 million of lottery funds and operates as a revolving fund – repayments provide capital for current loans. A report dated January 20, 1998 indicates that from the program inception through June 30, 1997, 104 loans totalling of \$1.2 million were made to start-up companies in Oregon. 60% of the loans were made to borrowers in rural areas of the state; 40% of the loans were made to provide working capital for the borrower; and 70% of all loans made have been repaid, are currently being paid or are within 60 days of the payment date. Under a sunset provision in the current law, this program will terminate in 1999 and the department will propose legislation in 1999 to eliminate or extend that date.

The **Oregon Business Development Fund**, ORS 285B.050 to 285B.098, was initiated in 1983 and provides long-term, fixed-rate financing to businesses for capital assets when equity and bank financing have been exhausted. The opportunity to obtain a loan under this program is triggered when a private lender agrees to provide financing for part of a project only. A second application is then submitted for a direct loan by the department to finance the rest of the project (sometimes called “gap financing” or a “gap loan”). Such loans are generally subordinated to the bank’s interest in any collateral that is available. The gap loan is limited to 40% of eligible project costs, must be fully secured and is limited to \$500,000 per project. The term of the loan is tied to the life of the assets being financed. A percentage of the funds available are allocated for emerging businesses and for businesses owned by women and minorities, and loans to companies in distressed areas of the state may be made without regard to the security and collateral requirements of the program.

The department reports that the Oregon Business Development Fund, initially funded with \$2 million from federal funding sources and \$9.4 million from lottery and other state funds, has generated profits to date. In fact, money that was available in this fund was used to finance other economic development programs that did not receive allocations in the 1997 legislative session. The department will propose legislation in 1999 to reduce the interest rate under this program for loans to companies doing business in distressed areas of the state.

INDUSTRIAL REVENUE BONDS

The **Oregon Industrial Revenue Development Bond Program**, ORS 285B.320 to 285B.377, is part of a federal program that was initiated in Oregon in 1973 and is available in 48 states. This program does not require state funding; rather, it allows qualified applicants to take advantage of an exemption from federal income taxes that is provided under the Internal Revenue Code. The Oregon Economic Development Department is authorized to issue such bonds on a tax-exempt basis for manufacturing and processing facilities in Oregon. The bonds may be used to finance fixed assets only, and the company for whom the bonds are issued is obligated for repayment of the bonds. These revenue bonds are not direct obligations of the State of Oregon. An eligible company may borrow up to \$10 million under this program, and the minimum bond issued is typically for \$1 to 2 million.

Decisions to issue bonds are based a cost-benefit ratio – including the number of jobs that are anticipated as a result of the bond issue. Local approval of the project is also required. On average, the department issues \$25 million in revenue bonds each year, with an annual limit of \$30 million. Since 1976 the department has issued 153 industrial revenue bonds. The port districts of Oregon and the City of Portland are also authorized to issue tax-exempt industrial revenue development bonds for eligible borrowers.

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EQUITY CAPITAL FINANCING

The **Oregon Resource and Technology Development Fund**, (ORTDF) ORS 284.610 through 284.710, was created by the Oregon Legislative Assembly in 1985 with funding to be provided from lottery funds. ORTDF provides early-stage venture financing in the form of equity capital for technology and natural resource businesses. ORTDF has funded 15 businesses whose technology was based on research from Oregon research institutions; ten of these are now operating enterprises.

The ORTDF fund is governed by a board of directors appointed by the Governor. Management of the fund is provided by Cascadia Pacific Management, LLC. The fund has provided equity capital for 55 Oregon companies and has enabled 48 business-starts in Oregon and the creation of over 1,000 jobs. ORTDF also assists new enterprises in raising additional capital and five of ORTDF-funded companies are currently listed on the NASDAQ exchange. The ORTDF portfolio of investments has earned a compounded return on investment of 27%, with an absolute failure rate of approximately 9%. The success of these investments has enabled the fund to build a revolving fund that will continue to have investment dollars available to build Oregon businesses in the future. Currently all program operation expenses and investment capital expenditures are derived from the proceeds of the revolving fund.

Information about ORTDF is available on the Internet at www.cpm.llc.com.