

HB 4033 -2 STAFF MEASURE SUMMARY

House Committee On Rules

Prepared By: Melissa Leoni, LPRO Analyst

Sub-Referral To: Joint Committee On Ways and Means

Meeting Dates: 2/21

WHAT THE MEASURE DOES:

Establishes a community lender loan loss account program in the Oregon Business Development Department (Business Oregon) and appropriates \$5 million to the program from the General Fund. Authorizes the agency to enter into contracts with lenders who are mission-driven government agencies or nonprofits located in Oregon who provide financial and technical assistance to small businesses, microenterprises, and start-up businesses. Allocates \$250,000 in Lottery Funds to the Oregon Entrepreneurs Network to engage the entrepreneur ecosystem, analyze the needs of Oregon small businesses, collaborate with the Oregon Capital Scan, and make legislative recommendations by November 30, 2020. Allocates \$3 million in Lottery Funds to the Oregon Growth Fund to be used by the Oregon Growth Board to target entrepreneurs and emerging capital innovators; support investments in loan funds, venture capital funds, angel conferences, and associated technical assistance; leverage other funding; make investments in early stage, small, and first-time capital sources; and help fill capital gaps especially in underserved communities, rural areas, and undersupported industry sectors.

ISSUES DISCUSSED:

EFFECT OF AMENDMENT:

-2 Replaces measure. Establishes lender loan loss account program and appropriates \$5 million from the General Fund to make awards to qualified lending institutions to fund lender loan loss accounts to increase lending to business owners and entrepreneurs who currently lack access to capital to start or grow their businesses, including businesses owned by women, minorities, veterans, low income persons and persons operating businesses in rural areas of the state. Authorizes Oregon Business Development Department (Business Oregon) to make awards to eligible lenders through a competitive process and establishes award limits to any single lender or for use in Clackamas, Multnomah, and Washington counties. Creates a committee of stakeholders with relevant experience from the financial industry, economic development professionals, and federally recognized tribes to assist Business Oregon in reviewing proposals and making funding recommendations. Eligible lenders must be certified as a community development financial institution, a nonprofit corporation, or affiliated with an economic development district or local government; have a physical presence in Oregon; have at least five years of lending experience; and not be a financial institution as defined in ORS 706.008. Requires lender proposals to include information on past lending performance, projected loan production with the award, how the award increases the lender's capacity to make loans to underserved businesses, and how the lender provides technical assistance to borrowers. Defines 'reimbursable loan' as a loan or portion of a loan made by a lender to a qualified business from which the losses are reimbursable from moneys in the lender's loan loss account and defines requirements of eligible loans. Requires written agreements between Business Oregon and each lender awarded funds that requires setting up the loan loss account, tracking loans that will be reimbursable from the account, depositing borrower loan loss fees in the account, liquidating borrower assets before the reimbursement of losses from the account, and annual reports. Requires each lender to submit an annual report to Business Oregon by July 31 for the previous fiscal year and specifies report requirements. Requires Business Oregon to report annually by September 15 to the Legislative Assembly on the awards made, aggregated lender and borrower data, aggregated loan performance, average interest rates and terms, and locations of borrower businesses. Requires repayment to

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the General Fund of the balance of awarded funds if the lender has not made reimbursable loans for 24 consecutive months; becomes insolvent; fails to perform materially; makes material misrepresentations; or sells, transfers, or assigns the account or loan loss portfolio. Releases lenders from the written agreement and authorizes lender to use the account balance for any purpose if certain conditions are met. Requires an interim committee on economic development to evaluate the effectiveness of the lender loan loss account program by September 15, 2022 and develop recommendations for the 2023 legislative session in consultation with the lenders who receive awards.

Allocates \$250,000 in Lottery Funds to the Oregon Entrepreneurs Network to engage the entrepreneur ecosystem, analyze the needs of Oregon small businesses, collaborate with the Oregon Capital Scan, and make legislative recommendations by November 30, 2020.

Allocates \$3 million in Lottery Funds to the Oregon Growth Fund to be used by the Oregon Growth Board to target entrepreneurs and emerging capital innovators; support investments in loan funds, venture capital funds, angel conferences, and associated technical assistance; leverage other funding; make investments in early stage, small, and first-time capital sources; and help fill capital gaps especially in underserved communities, rural areas, and undersupported industry sectors.

BACKGROUND:

The Oregon Capital Scan reports every two years on data, trends, and gaps in business capital. The 2018 report found: 1) strong improvement in the early stages of the company formation ecosystem; 2) increases in equity investments and crowdfunding; 3) increased funding for clients of the Small Business Development Centers; 4) continued state support for innovation; 5) strong Small Business Administration-backed lending; and, 6) decreases in traditional lending. The report notes the different sources of capital and trends in the number of loans or deals made but does not report on the gaps in need or whether additional resources are needed. The 2018 report recommended that the state continue to support Oregon-based venture capital funds; measure the impact of all capital across regions, demographics, and stages of growth; and measure more frequently.

During presentations to the House Interim Committee on Economic Development in September and November 2019, various organizations reported on the capital access gap for entrepreneurs and start-up businesses and the need for new tools, more funding, and technical assistance for underserved entrepreneurs and communities. The existing Oregon Capital Access Program at Business Oregon helps private lenders (banks and credit unions) make more commercial loans to small businesses and provide capital for start-up or expansion. All types of loans and lines of credit are eligible. Lenders build a loan-loss reserve account to protect against loan losses each time they enroll a loan and contributions to the account by the lender and borrower are matched by the program.

House Bill 4033 creates a new community lender loan loss account program for mission-driven lenders who provide financial and technical assistance to small businesses, microenterprises, and start-up businesses; funds the Oregon Entrepreneurs Network to gather information on unmet capital needs; and allocates additional funds to the Oregon Growth Board to help fill capital gaps in underserved communities, rural areas, and undersupported industry sectors.