House Bill 2301

Sponsored by Representative EVANS (Presession filed.)

SUMMARY

The following summary is not prepared by the sponsors of the measure and is not a part of the body thereof subject to consideration by the Legislative Assembly. It is an editor's brief statement of the essential features of the measure as introduced.

Directs State Treasurer to develop and implement small business support loan program that aids in supporting economic activities of small businesses during times in which small businesses cannot conduct business activities at ordinary or customary level because of statewide or regional emergency or other significant disruption of business activity. Specifies structure and funding for program and describes features that program must include.

Specifies eligibility for small business support loans. Authorizes State Treasurer to issue bonds to fund program. Establishes Small Business Support Loan Fund.

Declares emergency, effective on passage.

A BILL FOR AN ACT

Relating to support loans for small business activity in this state; and declaring an emergency.

Be It Enacted by the People of the State of Oregon:

SECTION 1. As used in sections 1 to 21 of this 2021 Act:

1. “Bonds” means serial bonds, term bonds, notes, obligations, lines of credit, revolving credit agreements, loans, financing agreements or other evidence of indebtedness that the State Treasurer determines is necessary to provide funds for the purposes expressed in sections 1 to 21 of this 2021 Act.

2. “Financial institution” has the meaning given that term in ORS 706.008.

3. “Small business” means a corporation, limited liability company, partnership, sole proprietorship or other legal entity with 50 or fewer employees that was incorporated, organized or formed under the laws of this state and transacts business in this state for the purpose of making a profit.

4. “Small business support loan” means a loan that the State Treasurer makes or participates in making to a small business in accordance with sections 1 to 21 of this 2021 Act.

5. “Statewide or regional emergency or disruption” means an event or condition, such as a natural or human-caused disaster, an epidemic or pandemic, a severe economic recession or depression or a similar occurrence, that:

   a. Affects all or a substantial region of this state; and

   b. Causes a temporary but significant reduction in or cessation of the ordinary operations of small businesses located within an area directly affected by the event or condition.

SECTION 2. (1) The State Treasurer shall develop and implement a small business support loan program that aids in supporting the economic activities of small businesses in this state under circumstances in which the small businesses:

   a. Cannot conduct business operations at an ordinary or customary level as the direct result of a statewide or regional emergency or disruption that occurs in or directly affects the location in which the small businesses operate;

   b. Cannot receive loan forgiveness, forbearances or other mitigation from financial in-
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stitutions to which the businesses owe payments on loans or other financing;
(c) Cannot receive deferrals, forbearances, reductions or other compromises or mitigation of the terms of a lease or rental agreement that the small businesses have with another person or cannot receive other assistance in meeting rent or lease payments;
(d) Have exhausted all other available opportunities for receiving new or restructured financing necessary to transact business during the statewide or regional emergency or disruption;
(e) Continue to employ within each small business at least 10 and not more than 50 workers that depend on the small business for all or a significant portion of the worker's income; and
(f) But for the emergency or disruption are otherwise sound, well-managed, economically viable and capable of recovery with adequate short-term support during the pendency of the statewide or regional emergency or disruption.

(2) The State Treasurer by rule shall develop and implement eligibility and underwriting criteria for applicants for small business support loans under sections 1 to 21 of this 2021 Act that take account of the circumstances described in subsection (1) of this section and:
(a) Direct resources to small businesses that have a good chance of recovery and an ability to repay small business support loans the State Treasurer makes under sections 1 to 21 of this 2021 Act;
(b) Ensure the continued solvency and vitality of the small business support loan program and protect the funds on which the program depends;
(c) Focus on supporting small businesses that pledge to continue business activity that generates income for both small business owners and the workers the small business employs;
(d) Protect the vitality of communities within which a small business operates by focusing attention on businesses that provide needed services to the community and, in particular, to underserved members of the community;
(e) Prevent fraud or misuse of state resources;
(f) Ensure that businesses owned by members of economically or socially disadvantaged communities within the state have equal access to loan moneys and other support resources, consistent with other applicable underwriting criteria; and
(g) Otherwise protect the interests of the state and taxpayers in the economic viability and recovery of small businesses in this state.

SECTION 3. (1) The State Treasurer shall make every reasonable attempt not to foreclose on any property or interest that secures a small business support loan that the State Treasurer makes under sections 1 to 21 of this 2021 Act if the borrower cannot make required loan payments because of illness, injury, death, involuntary job loss or economic stress due to factors beyond individual control related to the statewide or regional emergency or disruption. The State Treasurer by rule shall implement the policy set forth in this subsection. Rules the State Treasurer adopts under this section:
(a) May provide for a temporary reduction of loan payments due.
(b) May provide for any other solution that the State Treasurer agrees to jointly with the borrower.
(c) Shall provide for repayment of the amount of any loan payments reduced under the rules in accordance with terms and conditions upon which the State Treasurer and the bor-
rower agree.

(2) In reducing loan payments under this section, the State Treasurer shall consider the effect of any reduction on the solvency of the small business support loan program as a whole, on estimates of the most probable financial position of the program for one or more future periods, the condition of the tax exempt bond market and the effect on other borrowers in the program.

SECTION 4. The State Treasurer by rule may discount a portion of the principal payable to the State Treasurer in connection with a small business support loan if the discount results in economic benefit to the small business support loan program after considering the time value of money.

SECTION 5. (1) The State Treasurer, in the name and on behalf of the state, shall:

(a) Implement and operate the small business support loan program described in section 2 of this 2021 Act, under which the State Treasurer makes or participates in making loans to support the economic activity of small businesses during statewide or regional emergencies or disruptions;

(b) Undertake commitments to make or participate in making small business support loans under the terms of the small business support loan program;

(c) Purchase and sell small business support loans;

(d) Commence and prosecute to judgment all suits, actions and proceedings necessary to protect the interest of the state in connection with small business support loans;

(e) Bid on property offered for sale under foreclosure proceedings related to small business support loans and acquire title to property for and on behalf of the state as a result of the foreclosure proceedings;

(f) Accept deeds from borrowers in lieu of foreclosing property that secures a small business support loan;

(g) Sell, transfer, convey, lease or assign any property the State Treasurer acquires for and on behalf of the state in connection with the small business support loan program;

(h) Make repairs and improvements or alterations to any property that the state acquires as the result of a foreclosure proceeding related to a small business support loan;

(i) Pay taxes, liens and charges of every kind superior to the lien of the state for any property that secures a small business support loan;

(j) Pay the principal and interest on any obligations incurred in connection with property that secures a small business support loan;

(k) Dispose of property the state acquires as the result of a foreclosure proceeding related to a small business support loan; and

(L) Administer property the state acquires as a result of a foreclosure related to a small business support loan as the State Treasurer deems is in the best interest of the state.

(2) The State Treasurer shall deposit into the Small Business Support Loan Fund established under section 21 of this 2021 Act all moneys the State Treasurer receives from selling, leasing or otherwise disposing of any property the state receives from foreclosing any small business support loan the State Treasurer makes or participates in making under sections 1 to 21 of this 2021 Act.

SECTION 6. (1) The State Treasurer may acquire property by purchase if acquiring the property is necessary to protect the interest of the state because of defaults in repaying small business support loans the State Treasurer makes or participates in making under

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sections 1 to 21 of this 2021 Act. The State Treasurer shall control the property while the title remains vested in the state.

(2) The State Treasurer may take any action and make disbursements as are necessary to protect security for small business support loans the State Treasurer makes or participates in making under sections 1 to 21 of this 2021 Act. The State Treasurer shall add any disbursement the State Treasurer makes under this section to the amount due from the borrower and the disbursement must bear interest at the rate that applies to the existing small business support loan.

(3) The State Treasurer may disburse funds for the purposes set forth in this section from the Small Business Support Loan Fund established under section 21 of this 2021 Act.

SECTION 7. The State Treasurer on behalf of the state shall execute and retain custody of all deeds, leases, contracts, releases of mortgages and other instruments that are necessary or proper to administer sections 1 to 21 of this 2021 Act.

SECTION 8. The State Treasurer may receive conditional payments from borrowers that have executed small business support loan documents, indemnities for fire losses on secured property, and such other amounts that the State Treasurer must hold pending further or final disposition. The State Treasurer shall deposit all moneys received under this section into the Small Business Support Loan Fund established under section 21 of this 2021 Act, to an account designated for holding moneys pending appropriate disposition, and shall retain the amounts until the State Treasurer can properly dispose of the moneys.

SECTION 9. (1) The State Treasurer may enter into a contract with a financial institution under which the financial institution:

(a) Receives applications for and processes new small business support loans;

(b) Investigates, underwrites and evaluates an application for a small business support loan as provided by law; or

(c) Manages and services small business support loans for the period of time the State Treasurer specifies.

(2)(a) A financial institution that is a party to a contract under this section shall notify the State Treasurer of all loan applications the financial institution considers eligible for a small business support loan in accordance with sections 1 to 21 of this 2021 Act, and state why the financial institution believes the applicant is eligible for approval under the eligibility and underwriting criteria the State Treasurer adopts under the authority set forth in section 2 of this 2021 Act. The State Treasurer retains final authority to approve or disapprove the small business support loan.

(b) If the State Treasurer disapproves the small business support loan, the State Treasurer shall notify the financial institution and the applicant of the disapproval and state the reasons for the disapproval.

(c) If the State Treasurer is satisfied that an applicant has met all requirements for approval of a small business support loan and that any property offered as security for the small business support loan protects the interests of the state, the State Treasurer shall transfer to the financial institution an amount from the Small Business Support Loan Fund established under section 21 of this 2021 Act equal to the loan amount the State Treasurer approved. The financial institution shall disburse the amount in the manner the State Treasurer specifies. The financial institution shall record any security interest in any property that secures the small business support loan in the manner that is appropriate for the
type of security and shall forward all the original loan documents to the State Treasurer.

(3) A financial institution shall pay to the State Treasurer all moneys the financial institution receives as payments on principal and interest for small business support loans made under sections 1 to 21 of this 2021 Act in accordance with the terms of the contract between the State Treasurer and the financial institution.

(4) The State Treasurer and financial institution shall mutually agree upon the compensation the State Treasurer pays to the financial institution for services the financial institution performs under a contract under this section. The compensation may be a fixed annual payment or a percentage of the amount of each small business support loan the financial institution processes or services under the contract.

(5) With respect to the small business support loan program, a financial institution that executes a contract with the State Treasurer under this section shall perform only the services that the State Treasurer delegates to the financial institution under the contract and shall comply strictly with the terms of the contract and all applicable laws.

(6) A contract the State Treasurer executes with a financial institution under this section is exempt from ORS 279.835 to 279.855 and ORS chapters 279A, 279B and 279C.

SECTION 10. In addition to the authority described in section 9 of this 2021 Act, the State Treasurer may delegate by contract to a financial institution any of the authority granted to the State Treasurer in section 8 or 15 of this 2021 Act. The State Treasurer retains final authority to approve or disapprove loans, to deposit into the Small Business Support Loan Fund established under section 21 of this 2021 Act funds a financial institution receives from borrowers under section 8 of this 2021 Act and to interpret the duties and responsibilities of borrowers under sections 1 to 21 of this 2021 Act.

SECTION 11. In addition to, and not in lieu of, the audit required under ORS 297.210, the State Treasurer may contract with an independent public accountancy organization to review the cash flow projection for the small business support loan program and of the assumptions used in developing the cash flow projection. The organization shall conduct the review in accordance with review guidelines the American Institute of Certified Public Accountants (AICPA) develops. A contract with an independent public accountancy organization must require a written report, copies of which the State Treasurer shall provide to the Governor, the Secretary of State, the President of the Senate, and the Speaker of the House of Representatives not later than December 31 of each year. The State Treasurer shall pay for the organization’s services from funds appropriated for administering the office of the State Treasurer.

SECTION 12. (1) The State Treasurer shall identify small business support loans made under sections 1 to 21 of this 2021 Act with moneys from the Small Business Support Loan Fund established under section 21 of this 2021 Act that, at the current rate at which the borrower is making payments, are not or will not be fully amortized by the date specified for full amortization.

(2) The State Treasurer shall notify each borrower that is making payments on a small business support loan identified under subsection (1) of this section that, at the current rate of payment, the borrower will not fully repay the small business support loan principal by the final payment date. The notice must also include:

(a) The current principal balance.

(b) The current monthly principal and interest payment.
(c) The estimated monthly principal and interest payment necessary to reduce the principal balance to zero by the date specified for full amortization.

(d) The estimated time remaining until the obligation is fully paid at the current payment level and the difference between the estimated time and the date specified for full amortization.

(3) The State Treasurer shall include the notice required under this section in an annual statement to borrowers during each year in which the rate at which the borrower is repaying the small business support loan will not fully amortize the loan by the date specified for full amortization.

SECTION 13. If the State Treasurer makes a small business support loan under sections 1 to 21 of this 2021 Act with moneys from the Small Business Support Loan Fund established under section 21 of this 2021 Act, and the State Treasurer acquires an interest in real property as security for the loan, the State Treasurer shall comply with the Truth in Lending Act, 15 U.S.C. 1601 et seq., and all state and federal laws that apply to business loan transactions involving a security interest in real property to the same extent required for a bank or national bank, as defined in ORS 706.008, that extends credit in a transaction in which the bank or national bank acquires a security interest in real property.

SECTION 14. (1) A small business that meets the eligibility criteria set forth in section 2 of this 2021 Act, and in rules the State Treasurer adopts under section 2 of this 2021 Act, may apply for a small business support loan to continue business operations under the circumstances identified in section 2 of this 2021 Act. The applicant must submit an application in the form and format and with the contents the State Treasurer specifies by rule. The State Treasurer shall immediately process an application the State Treasurer receives under this section.

(2) An applicant may not borrow more than the maximum amount allowed for a small business support loan under this section.

(3) The maximum amount that an applicant may borrow under this section is the lesser of:

(a) The operational expenses of the small business during a period of not more than 180 days, at a rate of interest specified in section 17 of this 2021 Act. The applicant must document the applicant's monthly operational expenses during at least the three-month period before the occurrence of the statewide or regional emergency or disruption that is a basis for the applicant's eligibility and the State Treasurer shall calculate the loan amount based on the applicant's documented expenses. Operational expenses may include, but are not limited to:

(A) Payroll and other labor costs;
(B) Costs of goods, supplies and other stock in trade;
(C) Utilities, equipment and plant maintenance;
(D) Marketing and advertising expenses;
(E) Legal fees and fees for other professional services;
(F) Shipping and delivery expenses;
(G) Costs related to motor vehicles used exclusively for business operations; and
(H) Miscellaneous operating expenses; or

(b) The expenses of rent, a lease or a mortgage loan for real property on or in which the small business conducts operations, plus the debt service for any outstanding business loans
that are or may become due during the period in which the statewide or regional emergency or disruption is in effect.

(4) In calculating the maximum amount allowed for a small business support loan under this section, the State Treasurer shall exclude:

(a) Funds disbursed under section 6 (2) and section 16 (3) of this 2021 Act; and

(b) The amount of a loan that a borrower has repaid, or for which the property securing the loan has been transferred by deed or otherwise, if the property:

(A) Is destroyed by fire or other natural hazard; or

(B) Is taken through condemnation or lost or disposed of for a compelling reason that is not the fault of the applicant.

(5)(a) For the purposes of this section, an applicant owns property that secures a small business support loan if the applicant:

(A) Has fee simple title to the property, if the property is real property; or

(B) Is the purchaser of the property under a contract of sale or other instrument of sale.

(b) Earnest money or preliminary sales agreements, options or rights of first refusal are not contracts or instruments of sale under this subsection.

SECTION 15. (1) The State Treasurer may condition a small business support loan on an agreement from the borrower to resume or continue ordinary business operations within a specified period of time and to the extent possible under the circumstances of the statewide or regional emergency or disruption if the State Treasurer determines that resuming or continuing business operations is feasible and would best serve the needs and interests of the small business, of the employees of the small business, of the community within which the small business operates and of the state. The State Treasurer shall specify any conditions the State Treasurer imposes in connection with the small business support loan in the loan agreement and shall ensure that the borrower receives and understands a notice that outlines the conditions and the consequences set forth in section 19 of this 2021 Act for failing to comply with the conditions.

(2)(a) Security for a small business support loan must consist of any real property the small business owns or of a combination of any goods, merchandise, stock, personal or intangible property that the small business owns without other encumbrances and with a market value that the State Treasurer determines will adequately secure the small business support loan.

(b) If the security for the small business support loan is property other than real property, the State Treasurer shall require the borrower to periodically execute any instruments that are necessary to record a security interest in any property to which the borrower takes title as a replacement for property the borrower sells or transfers in the course of business operations. The State Treasurer by rule and by contract may specify other conditions for taking an interest in property of the borrower to secure repayment of the small business support loan.

(3) A mortgage, trust deed or other lien on real property must:

(a) Be either a first lien on the property or a lien insured by mortgagee's title insurance against loss from any prior encumbrance; and

(b) Provide that the borrower, or any subsequent owner of the secured property, may pay all or any part of the loan at any time without penalty.

(4) Property, other than real property, that secures a small business support loan must
be entirely free of other encumbrances, be stored or located on premises that the small business owns or controls, be of an ascertainable market value and be readily marketable. The property must meet any other specifications or qualifications the State Treasurer requires by rule.

SECTION 16. (1) The State Treasurer may make a small business support loan at the rate of interest specified in section 17 of this 2021 Act. The State Treasurer may determine an appropriate amortization period for the small business support loan based on the State Treasurer's evaluation of the viability of the small business and other appropriate underwriting criteria, but the amortization period may not exceed 10 years. The limitations set forth in this subsection do not preclude the State Treasurer from later extending the amortization period where necessary or otherwise warranted.

(2) The State Treasurer may adjust the terms and conditions of a small business support loan, including the amortization period and interest rate for the small business support loan, if the borrower transfers ownership of the property that secures the small business support loan other than by sale in the ordinary course of business.

(3) A mortgage or trust deed or other lien for property that secures a small business support loan may provide that the State Treasurer may pay the taxes and insurance premiums from the Small Business Support Loan Fund established under section 21 of this 2021 Act. The State Treasurer may add any amounts paid as taxes or insurance premiums to the principal of the small business support loan and may require repayment under terms the State Treasurer specifies by rule. The State Treasurer may prescribe any method or period for repayment of an amount paid under this section that does not conflict with the terms of the mortgage, trust deed or lien that secures the small business support loan.

SECTION 17. (1) The State Treasurer shall periodically prescribe the interest rate that applies to a small business support loan the State Treasurer makes under sections 1 to 21 of this 2021 Act, taking into consideration the current value of the money, the solvency of the small business support loan program and the effect of the rate on applicants.

(2) If during two consecutive fiscal years the cash flow projection and the review of the projection performed under section 11 of this 2021 Act indicate that the Small Business Support Loan Fund as established under section 21 of this 2021 Act will maintain a balance throughout the term of the projections that exceeds the succeeding years’ debt service and operating expenses for the small business support loan program, the State Treasurer may consider reducing the interest rates the State Treasurer charges for small business support loans under this section in such a manner that ensures the future solvency and self-supporting nature of the small business support loan program.

SECTION 18. (1) If the State Treasurer does not receive a periodic installment payment due under a small business support loan agreement, the State Treasurer may impose a late charge with respect to the payment, subject to the limitations set forth in subsection (2) of this section.

(2) The State Treasurer may not impose a late charge:

(a) With respect to any periodic installment payment that the State Treasurer receives within 15 days after the due date. If the 15-day period ends on a Saturday, Sunday or legal holiday the State Treasurer shall extend the 15-day period to the next business day.

(b) In a dollar amount that exceeds five percent of the sum of principal and interest of the delinquent periodic installment payment or the amount provided in the loan agreement
for the small business support loan, whichever is the lesser.

(c) Unless the loan agreement for the small business support loan provides for a late charge on delinquent periodic installments and the State Treasurer provides to the borrower a monthly billing, coupon or notice that discloses the date on which periodic installments are due and states that the State Treasurer may impose a late charge for payments the State Treasurer receives more than 15 days after the due date. If the loan agreement provides for automatic deductions from a deposit account the borrower maintains, the State Treasurer need not provide the borrower with a monthly billing, coupon or notice under this subsection if the funds in the borrower’s account are not sufficient to cover the amount of a loan payment on the date the loan payment becomes due or within the period described in paragraph (a) of this subsection.

(d) More than once on any single installment.

SECTION 19. (1) A borrower may use moneys that the borrower receives as a small business support loan under sections 1 to 21 of this 2021 Act only for the purpose of continuing business operations during a period of statewide or regional emergency or disruption and otherwise in accordance with provisions the State Treasurer specifies by rule.

(2) Except as provided in this section, a borrower's use of all or any part of a small business support loan the borrower receives under sections 1 to 21 of this 2021 Act for investment or any purpose other than the purpose described in subsection (1) of this section constitutes an act of default and the State Treasurer may immediately accelerate the unpaid balance of the small business support loan.

(3) If the State Treasurer determines that a borrower is using loan moneys in violation of this section, the State Treasurer shall immediately commence any action or proceeding necessary to recover for the state the loan moneys or any property the borrower obtained with the proceeds of the small business support loan.

(4) If a condition of a borrower's small business support loan requires the borrower to resume or continue business operations within a certain period of time, to the extent possible under the circumstances of the statewide or regional emergency or disruption, the borrower violates this section if the borrower fails to resume or continue business operations within the allotted time and otherwise in accordance with the terms of the loan agreement for the small business support loan. A violation of this subsection constitutes an act of default and the State Treasurer may immediately accelerate the unpaid balance of the small business support loan. The borrower for good cause may request in writing an extension to the period of time within which the borrower must resume or continue business operations. If the State Treasurer denies the borrower's request for an extension, the borrower may file a written request for a hearing within 30 days after the denial.

SECTION 20. The State Treasurer may issue bonds as provided in ORS chapter 286A if the State Treasurer determines that the bonds are necessary to meet the demand for small business support loans under sections 1 to 21 of this 2021 Act and after considering the number of applications, the number of outstanding loans in repayment, the amount of debt that the issue will finance or refinance, directly or indirectly, the solvency of the small business support loan program as a whole, the current value of money, the condition of the tax exempt and taxable bond markets, the effect of the issue on all applicants and current small business support loan program borrowers and such other issues as the State Treasurer determines are relevant.
SECTION 21. (1) The Small Business Support Loan Fund is established as a special fund separate and distinct from the General Fund. The State Treasurer shall deposit the proceeds from the sale of each issue of bonds authorized under section 20 of this 2021 Act into the State Treasury and credit the moneys to the Small Business Support Loan Fund.

(2) In addition to the proceeds from the sale of bonds, the Small Business Support Loan Fund shall also consist of:

(a) All moneys received as payments on principal and interest of small business support loans the State Treasurer makes under sections 1 to 21 of this 2021 Act;

(b) All moneys the State Treasurer receives as accrued interest upon bonds sold;

(c) All moneys derived from tax levies provided for in ORS 291.445;

(d) All moneys derived from the selling, renting or administering of property acquired by foreclosure or other proceeding, or deed;

(e) All moneys received as interest earned from investing moneys in the Small Business Support Loan Fund;

(f) All moneys received as proceeds from the sale of refunding bonds; and

(g) All other moneys accruing under sections 1 to 21 of this 2021 Act.

(3) All moneys in the Small Business Support Loan Fund are continuously appropriated to the State Treasurer for the following purposes:

(a) To carry out the provisions of sections 1 to 21 of this 2021 Act;

(b) To purchase bonds issued for the purposes of sections 1 to 21 of this 2021 Act; and

(c) Except for moneys derived from the sale of bonds or from tax levies, for paying the expenses of administering the small business support loan program.

(4) The State Treasurer may invest the moneys in the Small Business Support Loan Fund that are not immediately required to provide loans under sections 1 to 21 of this 2021 Act as provided in ORS 293.701 to 293.857. The earnings from the investments must be credited to the Small Business Support Loan Fund.

SECTION 22. (1) Sections 1 to 21 of this 2021 Act become operative on January 1, 2022.

(2) The State Treasurer may adopt rules and take any other action before the operative date specified in subsection (1) of this section that is necessary to enable the State Treasurer, on and after the operative date specified in subsection (1) of this section, to undertake or exercise all of the duties, functions and powers conferred on the State Treasurer by sections 1 to 21 of this 2021 Act.

SECTION 23. This 2021 Act being necessary for the immediate preservation of the public peace, health and safety, an emergency is declared to exist, and this 2021 Act takes effect on its passage.