
SALT LAKE CITY COUNCIL STAFF REPORT

DATE: March 28, 2003

SUBJECT: **Changes to the Small Business Revolving Loan Fund Criteria and a grant to the Utah Microenterprise Loan Fund**

AFFECTED COUNCIL DISTRICTS: Citywide

STAFF REPORT BY: Gary Mumford

ADMINISTRATIVE DEPT. AND CONTACT PERSON: Department of Community & Economic Development
Alison Weyher, CED Director
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KEY ELEMENTS:

On June 13, 2002, the City Council adopted criteria for the Small Business Revolving Loan Fund and authorized the Mayor to administer the loan program in accordance with the criteria without Council approval of individual loans. Under the criteria, an evaluation matrix is used to rank the applicant's credit history, ability to repay the loan, collateral, management and business experience, neighborhood impacts, and fiscal impacts of the loan relating to job creation and retention, leverage of public to private funds, and impact on the City's tax structure. The criteria require that at least 70 points out of a possible 100 points be received in order to award a loan. The matrix includes 15 points for fully secured loans and up to 10 points for loans partially secured with collateral. Although collateral was not required for existing businesses with at least three years experience, it makes it difficult for an applicant to receive 70 points if most of the 15 points for collateral are not awarded. Under the 2002 criteria, start-up business can receive a loan if the loan is fully secured and an amount at least equal to the amount of the loan is provided by the borrower or another lender for the business. The 2002 criteria also require life insurance on the business principals naming the City as beneficiary. The interest rate for the current program is the prime rate if the applicant receives a score of at least 80 points and prime plus 2% if the applicant receives between 70 and 80 points.

Seventy-six loan applications have been sent out to individuals inquiring about the loan program since the loan criteria were adopted, but only one loan has been awarded. Due to the poor success of the loan program, the Administration requests that the Council relax the loan criteria relating to collateral, interest rates, and life insurance. The Administration also proposes to grant \$250,000 to the Utah Microenterprise Loan Fund to make small loans to businesses that do not qualify for the City's loan program. Additionally, the ordinance provides a loan program to businesses impacted by road construction, and allows the Administration flexibility to propose larger loans to the Council for consideration at lower rates when significant job creation or new revenue will be generated.

MATTERS AT ISSUE/QUESTIONS FOR THE ADMINISTRATION:

Collateral – The proposed changes allow a full 15 points in the evaluation matrix for both start-up and established businesses that provide collateral to secure 25% of the loan amount. Start-up and recently established businesses with less than three years history must place other cash into the business of at least 10% of the loan amount according to the proposed criteria. It is proposed that loans of up to \$100,000 are available to start-up businesses. *Since loans that are not fully collateralized present more risk of nonpayment, the Council may wish to ask the Administration about the default rate of other similar loan programs and on input received from local financial institutions. One option would be to limit high-risk loans to \$25,000 or \$50,000 where a majority of the loan is unsecured.*

Interest rate – The proposed change sets the interest rate for loans at the current prime rate at the time the loan is approved. The 2002 criteria set higher interest rates for loans with a greater perceived risk of nonpayment. This concept is similar to interest rates charged by the commercial lending industry. *The Council may wish to discuss with the Administration the reasons for setting a single rate for all loans.*

Life insurance – The proposed change eliminates the requirement for life insurance. Obtaining a life insurance policy significantly extends the loan processing time and can delay the applicant from receiving the loan proceeds for several weeks after the loan is approved. This is because the applicant doesn't normally apply for insurance until notified that the loan has been approved. *The Council may wish to discuss options with the Administration such as requiring life insurance on business principals only for those loans in excess of \$100,000.*

Grant to the Utah Microenterprise Loan Fund – The Administration approached the Utah Microenterprise Loan Fund about combining its funds with a grant from the City to offer loans up to \$25,000 to businesses in Salt Lake City. The current maximum loan amount is \$10,000. The proposal is to grant \$250,000 to the Utah Microenterprise Loan Fund to make loans in Salt Lake City particularly on Main Street and the Westside. The Utah Microenterprise Loan Fund will provide 50% of the loan amount up to \$10,000 and shares risks in the same ratio. Criteria for reviewing applications will be the same criteria used by the Utah Microenterprise Loan Fund including an interest rate of 5% above prime rate. Money from loan repayments will be available to the Utah Microenterprise Loan Fund to loan out again. The Utah Microenterprise Loan Fund will receive \$1,000 from the fund for each loan it makes to provide technical assistance on how to write a business plan and accounting, marketing and legal concerns. The Utah Microenterprise Loan Fund will report to the City annually on the use of the grant funds. *The Council may wish to consider receiving a report from the Utah Microenterprise Loan Fund more often than annually especially during the initial couple of years. The Council may wish to ask the Administration about the default rate of past loans granted by the Utah Microenterprise Loan Fund to gain a better understanding of the risk level of these loans.*

Loans to businesses impacted by road construction – The Administration proposes an on-going program of offering loans to businesses impacted by road construction. Loan amounts will be up to \$15,000 at the current prime interest rate for a five-year term. Collateral equal to 25% of the loan will be required. The Administration notes that of the 34 loans made to businesses impacted by light rail, 5 loan balances totaling \$38,725 were written off after the City exhausted all collection procedures. Businesses adversely impacted by road construction are eligible for loans under the current loan program, but they must meet the same criteria requirements as other applicants. *The Council may wish to ask about the possibility of providing an expedited process for this component of the loan program, given the potential immediate need for businesses impacted by construction.*

Extraordinary loans – The Administration would like the flexibility to develop larger loans as situations arise similar to the loan to CBS/Viacom. The Council will be informed of any potential large loans that are in the development stage. The Council would need to take formal action prior to awarding an extraordinary loan.

Bank pool program – The Administration is also working on the possibility of establishing a loan pool program with local banks to make loans to businesses in Salt Lake City that do not qualify for conventional financing. Under the loan pool concept, the City would share in the risk with the banks. *The Council may wish to ask representatives of the Administration about the progress of this endeavor.*

cc: Rocky Fluhart, David Nimkin, Alison Weyher, LuAnn Clark, DJ Baxter
