
SALT LAKE CITY COUNCIL STAFF REPORT

DATE: May 16, 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
LuAnn Clark, HAND Director

At the public hearing on May 13th, comments primarily focused on the following:

- Loan amount
- Collateral requirements
- Interest rates
- Refinancing of existing business debt
- Closing costs

OPTIONS:

Some options that Council Members have mentioned and may wish to consider include:

1. Loan amount – The proposed maximum on construction loans is \$15,000. The Council may wish to consider increasing the maximum to provide greater assistance to businesses negatively impacted by road construction.
2. Collateral – Collateral equal to at least 25% of the loan is proposed to be required. Collateral can be provided through a lien on property, equipment, inventory, other business assets or personal assets. The Council may wish to provide more flexibility by setting a decreased collateral requirement specifically for construction loans or for all business loans. The Council could opt to give the Administration the authority to make loans without collateral in some circumstances and request that the Administration develop criteria to be used for those circumstances.
3. Interest rates – The proposed interest rate for loans is the current prime rate at the time the loan is approved. The rate that was given in the past for businesses impacted by light-rail construction was 5%. The Council may wish to consider a lower interest rate for business impacted by road construction.
4. Refinancing of existing business debt – The proposed criteria doesn't allow the loan proceed to be used to pay off business debt. The Council may wish to consider allowing the consolidation of business debt to be an allowed use of loan proceeds where the borrower provides documentation that the debt was incurred for business purposes.

ADDITIONAL INFORMATION:

The loan program requires a 1% loan origination fee for the regular small business loan program to reimburse the City for administrative costs of the program. In addition, the borrower pays costs for closing the loan at a title company. The proposed loan program for businesses impacted by road construction require that only the costs of the title company are to be paid from loan proceeds; not the loan origination fee.

The proposed loan program for businesses impacted by road construction provide for deferral of loan repayments until the construction is complete. *The Council may wish to confirm whether interest accrues during the construction period.*

In 1998, the Council approved a loan program for businesses along the Main Street light rail corridor.

- Number of loans granted: 15
- Maximum loan amount: \$10,000
- Interest rate: 5%
- Repayment period: 48 months following completion of construction
- The loans were unsecured.
- To date, three of the fifteen loans have been written off.

In 2000, the Council approved a loan program for businesses along the 400 South construction corridor.

- Number of loans granted: 19
- Maximum loan amount: \$15,000
- Interest rate: 5%
- Repayment period: 60 months following completion of construction
- The loans were unsecured.
- To date, two loans have been written off, one is likely to be written off, one business closed, (but the owner is paying off the loan) and an additional business closed and the owner has left the state. In addition, three loans are chronically one to two months delinquent.

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