
SALT LAKE CITY COUNCIL STAFF REPORT

DATE: August 6, 2004

SUBJECT: **Additional Grant to the Utah Microenterprise Loan Fund**

AFFECTED COUNCIL DISTRICTS: Citywide

STAFF REPORT BY: Gary Mumford

ADMINISTRATIVE DEPT. AND CONTACT PERSON: Mayor's Office
Alison McFarlane

On July 13, 2004, the City Council received a briefing regarding an additional \$250,000 grant to the Utah Microenterprise Loan Fund to extend a loan program for entrepreneurs of start-up and existing small businesses located within Salt Lake City who are unable to obtain other financing. At the briefing it was explained that loan repayments are tracked in a separate loan pool for Salt Lake City and available to be loaned out again to Salt Lake City businesses. Loans are amortized over seven years but are due at the end of five years. Assuming that payment history is good, a loan repayment term can be continued for another five years.

The Utah Microenterprise Loan Fund makes loans to people unable to get financing from any other source. A typical reason for loan difficulty is credit issues. The Utah Microenterprise Loan Fund looks at the circumstances involving credit, such as divorce, medical or layoff. Some examples of loan denials are where present obligations are not current or where the businesses plan doesn't show earnings sufficient to make loan payments. Historically over the past 11 years, the Utah Microenterprise Loan Fund has sustained losses of between 9% and 10%.

Of the \$250,000 that the City provided to the Utah Microenterprise Loan Fund in May 2003, \$211,750 has been loaned out. Technical assistance fees of \$16,000 were expensed for the 16 loans. Principal repayments of \$19,844 have been received for an available balance of \$42,094. Most applicants request the full \$25,000, but some loans were approved for a smaller amount. Most applicants are not able to leverage the loan, but a couple of applicants were able to obtain a portion of funds from commercial lenders.

In recent years, the Utah Microenterprise Loan Fund hasn't made presentations in community council meetings, but the executive director committed to do so. The Fund hasn't been as successful on the west side of Salt Lake City as hoped. The Fund will continue its efforts to attract businesses to vacant buildings. Presentations will be made in community council meetings.

Council Members also asked questions regarding the City's Small Business Revolving Loan Fund. The outstanding loan balance of loans previously made is \$4,201,802. The balance of funds available in the Small Business Revolving Loan Fund is \$2,543,760. The City has written off several of the light-rail loans but hasn't lost off any of the regular Small Business

Revolving loans. However, one loan is presently in serious difficulty with a balance of approximately \$60,000. The City has recently prepared a new brochure and has revised the loan application and procedures to help applicants by simplifying the process. Other additional efforts are being made to promote the loan program.

POTENTIAL MOTION:

If the Council desires to adopt the resolution, the following motion would be appropriate:

["I move that the Council"] **Adopt the resolution approving a grant of \$250,000 to the Utah Microenterprise Loan Fund.**

The following information was provided previously. It is provided again for your reference.

On May 27, 2003, the City and the Utah Microenterprise Loan Fund entered into an agreement whereby the City provided \$250,000 in funds to the Utah Microenterprise Loan Fund for a revolving loan fund program for entrepreneurs of start-up and existing businesses located within Salt Lake City who are unable to obtain conventional financing or qualify for a loan from the City's Small Business Revolving Loan Fund. Under the joint agreement, both entities participate in funding the loans. The Utah Microenterprise Loan Fund has made 16 loans under the joint-funded loan program. Salt Lake City's portion of the loan funding was \$211,750 for the 16 loans. The Administration is proposing granting an additional \$250,000 to the Utah Microenterprise Loan Fund from the Small Business Revolving Loan Fund.

The Utah Microenterprise Loan Fund is a private, non-profit entity whose mission is to provide financing and management support to entrepreneurs in start up and existing firms that do not have access to traditional funding sources. According to the Fund's web site, over the past 10 years the Utah Microenterprise Loan Fund has worked in partnership with members of Utah's financial banking community to help launch or expand more than 300 small businesses across the state. Borrowers include people just starting out as well as those expanding their existing business. Loans can be used for the purchase of inventory, equipment, vehicles, computers and working capital.

Regular loans from the Utah Microenterprise Loan Fund are limited to a maximum loan amount of \$10,000 per business. In order to allow for somewhat larger loan amounts, the City provided a grant to the Utah Microenterprise Loan Fund in 2003 to allow businesses within Salt Lake City to apply for loans of up to \$25,000. Some people need more than \$10,000 and can also benefit from the resources and mentoring provided by the Utah Microenterprise Loan Fund. Under the agreement, the Utah Microenterprise Loan Fund provides up to 50% of the loan amount up to \$10,000 and shares risks in the same ratio. Criteria for reviewing applications are the same used by the Utah Microenterprise Loan Fund including an interest rate of 5% above prime rate. The loans are for a five-year term. A nine-member credit committee, comprised of volunteer bankers and small business owners, makes the loan decision. Money from loan repayments revolves back to the appropriate loan account based on each party's pro-rated participation in the loan and is available to loan out again. Some

losses are expected since these applicants usually lack business history and have limited credit or insufficient collateral.

The Utah Microenterprise Loan Fund endeavors to make successful loans by providing technical assistance to borrowers. The Fund partners with business assistance organizations including professionals in the areas of accounting, marketing, graphic design, legal advising and computer technology. The Utah Microenterprise Loan Fund receives \$1,000 from the City's grant for each loan it makes to provide the technical assistance. In addition, a loan origination fee is collected from the loan proceeds to help offset administration costs.

cc: Rocky Fluhart, Sam Guevara, Alison McFarlane, DJ Baxter
