
SALT LAKE CITY COUNCIL STAFF REPORT

DATE: July 7, 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

KEY ELEMENTS:

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 19 loans under the joint-funded loan program. Salt Lake City's portion of the loan funding was \$211,500 for the 19 loans. The Administration is proposing granting an additional \$250,000 to the Utah Microenterprise Loan Fund. The funding source is from the \$3.6 million balance in the Small Business Revolving Loan Fund.

MATTERS AT ISSUE/QUESTIONS FOR THE ADMINISTRATION:

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 businesses that do not have access to traditional funding sources. According to its 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. According to the Administration, some people need a little 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.

The Council may wish to ask some of the following questions:

1. What kinds of businesses in Salt Lake City have received loans during the past year?
2. How many of the successful applicants were women or minorities?
3. What were some of the reasons why loans were denied?
4. What are examples of some of the mentoring that has been provided to applicants?
5. Are any of the loan payments more than 60 days delinquent on these 19 loans?

OPTIONS:

Following the briefing, the Council may wish to consider several options including:

- Forward the grant resolution to a future Council Meeting for consideration
- Request additional information
- Wait on approving an additional grants until the success of the program can be more fully quantified
- Terminate the agreement. (Applicants can continue to apply for loans of up to \$10,000.)

cc: Rocky Fluhart, Sam Guevara, Alison McFarlane, Ed Butterfield, Lee Martinez, LuAnn Clark, DJ Baxter
