



# county of Santa Cruz

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September 29, 1998

Agenda: October 6, 1998

## BOARD OF SUPERVISORS

County of Santa Cruz

701 Ocean Street

Santa Cruz, CA 95060

### MICRO LOAN PROGRAM FOR SMALL BUSINESSES - FINAL REPORT

'Dear Members of the Board:

In September 1996, the County and the County's Redevelopment Agency entered into an agreement with California Coastal Rural Development Corporation to provide a Pilot Micro Loan Program for small businesses in the unincorporated areas. The intent of the program was to provide access to affordable credit and technical assistance for low and moderate income small business people. The original agreement was extended an additional year, to June 30, 1998, at no additional cost to the County.

The County contributed \$21,000 to the program; \$15,000 to partially cover administrative costs, and \$6,000 to be held in a loan loss reserve account. One-half of the contribution was provided by the County's general fund, and one-half was provided by the County's Redevelopment Agency. The contribution leveraged a loan pool of \$150,000. The following program guidelines applied:

- the program offered loans to small businesses in the unincorporated areas from \$5,000 to \$25,000 for eligible participants, with priority given to loans between \$5,000 to \$10,000, if reflected by loan demand, in order to address a gap in the marketplace for loans of the smaller amount;
- the County of Santa Cruz, Redevelopment Agency staff and Cal Coastal would work in partnership to promote the pilot micro loan program to potential participants in the unincorporated areas of Santa Cruz; and
- the program would use non-traditional measures of eligibility, which would concentrate in the areas of experience, ability to service debt, and a demonstrated track record, rather than real property collateral, and standard loan equity ratios; and provide a fixed interest rate of 10.5%.

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A cooperative marketing program between the County Administrative Office, the County's Redevelopment Agency, the Central Coast Small Business Development Center (SBDC), a micro loan referral network of local banking institutions, and Cal Coastal staff was implemented. In addition, Cal Coastal established a Santa Cruz office, to better serve the County's small business community.

Over the life of the agreement, approximately 60 small businesses contacted Cal Coastal to inquire about the micro loan program. After in-depth interviews and, where warranted, site visits, 8 businesses completed the application process. Three application packages were approved, for \$75,000 in total loans under this program.

Staff consulted with Cal Coastal to understand why less than 15% of the businesses who inquired about the loan program completed the application process. Cal Coastal is positioned as a lender of last resort, or as a lender which does not apply the traditional requisites for real property collateral, or the traditional requisites for equity matching funds. Therefore, business experience, an ability to service debt, which is demonstrated by cash flow projections and business plan documents, and an applicant's personal credit history are the criteria most critically evaluated. Overall, with the exception of referrals from the SBDC, small businesses which contacted loan program staff did not have sufficient documentation of the ability to service debt, as demonstrated by current business plans and cash flow projections. And, by far the most often cited reason that applicants did not proceed with a loan application, or were declined at the staff level, was for a personal credit history which would not support additional debt, or support the ability to service debt in a timely manner.

According to loan program staff, and others active in the small business lending community, including SBDC staff, this is a significant problem for very small, independently owned business. Small business owners tend to finance business expansion or infusions of business capital through the use of personal credit cards, rather than other financing tools which may offer more favorable interest rates, or more favorable re-payment terms. It should be noted that an applicant goes through the same application process in terms of developing a business plan and cash flow projections, and providing tax statements and other documentation whether the loan amount sought is \$5,000, \$50,000, or more. Therefore access to credit for loans in smaller amounts, for example, up to \$10,000 through a credit card application process can be much less time consuming, and often easier to qualify for. However, during business downturns, the business owner's personal credit history can be negatively impacted so as to preclude additional investment by other financing options,

The Pilot Micro Loan Program had many positive outcomes, in addition to providing \$75,000 in financing to the small business community. A key component of the Santa

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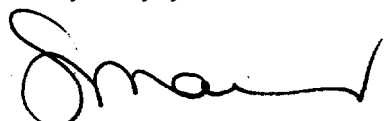
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Cruz County Pilot Micro Loan Program was the provision of streamlined technical assistance geared toward the needs of businesses who inquired about the program. As a result of the technical assistance component, the business benefitted from an increased understanding of the strengths and weaknesses of his/her business, and an in-depth understanding of the business' ability to absorb and service additional debt. In addition, Cal Coastal's experience in the Micro Lending field has allowed them to establish a permanent Micro Lending Program small businesses on the Central Coast.

It is RECOMMENDED that your Board accept and file this final report on the Santa Cruz County Micro Loan Program.

Very truly yours,



SUSAN A. MAURIELLO  
County Administrative Officer

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