

# THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

## MEMORANDUM

TO: REDEVELOPMENT AGENCY BOARD	FROM: HARRY S. MAVROGENES EXECUTIVE DIRECTOR
SUBJECT: SEE BELOW	DATE: FEBRUARY 5, 2010

### INFORMATION

**SUBJECT: RESPONSE TO REQUEST FOR INFORMATION ABOUT  
THE SMALL BUSINESS LOAN PROGRAM**

On January 26, 2010, the Redevelopment Agency Board adopted a resolution approving the proposed revised guidelines to clarify procedures and streamline guidelines of the Small Business Loan Program (SBLP). Board member Nguyen requested information about whether the program would finance a business in bankruptcy and how the SBLP measures success.

A loan applicant facing impending bankruptcy would not receive a loan. Agency staff use the five C's of credit to evaluate requests for loans: Cash flow, Capacity, Credit, Collateral and Character. A past bankruptcy would not disqualify an applicant if it can be shown that the bankruptcy was caused by medical debt, divorce or other extenuating circumstances.

The program measures success in three ways:

- Loan payback
- Sales tax generation
- Job creation/retention

Using the loan payback measure, the program has been extremely successful, especially in the current economy. With the exception of one loan to Zanotto's, which has been notified by letter that they are in default, all loans have either been paid back or are current with their monthly payments. The original funds and interest have been returned and the money is available to be used for new loans. Additionally, the Agency has provided \$1,206,000 in loans, to date, through the program to businesses that generate \$174,000 in sales taxes annually and have created or allowed the retention of 350 jobs.

The SBLP functions to stabilize small retail businesses, create and retain jobs, enhance the immediate area's economic climate and support other Redevelopment programs. Although it is difficult to extract the exact increase in sales taxes paid or jobs affected, the borrowers agree that the program has provided much needed funds when the lack of credit would have prevented them from expanding, continuing operations or starting-up. Sales taxes generated from the 18 active loan recipients alone are estimated to be over \$150,000 per year, with these businesses estimated to be providing over 200 jobs, not including the self-employed business owners. Two of the businesses were start-ups, two were expanding operations and the remaining businesses used the funds to maintain operations, upgrade their equipment and for additional working capital.

All SBLP clients faced the problem of lack of credit availability, one of the major problems in local business development and a significant contributing factor to local economic distress. The SBLP is the only tool with which the City and Agency can respond to these needs since both the Revolving Loan Fund and the Development Enhancement Special Fund have been discontinued.

The SBLP fills a gap in the local credit market and assists in the development of jobs and capital formation. The Program stimulates small business development, creates and retains jobs for local entrepreneurs (including low-income persons) and businesses owned and operated by minorities, women, and members of economically disadvantaged groups. It helps the Redevelopment Agency address blighted and vacant facilities and boost the local economy.



HARRY S. MAVROGENES  
Executive Director