

Department of Legislative Services
Maryland General Assembly
2003 Session

FISCAL AND POLICY NOTE

Senate Bill 51

(Senator Exum, *et al.*)

Finance

Economic Matters

**Business and Economic Development - Maryland Small Business Development
Financing Authority - Guaranty Fund**

This bill authorizes the Maryland Small Business Development Financing Authority (MSBDFA) to use the Small Business Development Guaranty Fund to guarantee up to 80% of the principal and interest of a long-term loan to refinance a loan applicant's existing debt. The bill is effective July 1, 2003.

Fiscal Summary

State Effect: Minimal. The bill expands the purposes for which existing funds may be used. If the bill results in additional loan guarantees, special fund revenues could increase by as much as \$15,000.

Local Effect: None.

Small Business Effect: Minimal. Small businesses that qualify for the guarantee authorized by the bill would benefit.

Analysis

Current Law: MSBDFA can use the Guaranty Fund to guarantee up to 80% of the principal of, and an interest on, a long-term loan made by a financial institution to an applicant if: (1) the applicant has a reputation for financial responsibility, resides or has a principal place of business in Maryland, and cannot obtain adequate business financing through normal lending channels for specified reasons; (2) the loan is at least \$5,000 and the maximum amount that MSBDFA would have to pay under the guarantee does not exceed \$1 million; (3) the loan is to be used for working capital, acquisition and

installation of equipment, or improvements to, or acquisition of, real property, subject to certain limits; (4) the loan matures within ten years from the date of closing; and (5) the interest rate on the loan is no greater than the rate determined by MSBDFFA to be the monthly weighted average of the prime lending rate, plus 2%.

MSBDFFA may not approve a guarantee unless it considers the economic impact of the loan to be substantial. To determine the economic impact of a project, MSBDFFA may consider:

- the amount of the guarantee obligation;
- the terms of the loan to be guaranteed;
- the number of new jobs that will be created by the loan; and
- any other factor that the Authority considers relevant.

Background: MSBDFFA began operating in fiscal 1984 to provide partial guarantees for long-term capital and equipment loans to small businesses, including those that are socioeconomically disadvantaged. According to the Department of Business and Economic Development (DBED), the program has guaranteed 232 transactions by banks and other lending institutions totaling \$45.3 million since its inception. The program, which is privately managed, closed 35 transactions in fiscal 2002 and is expected to close 20 or fewer transactions in fiscal 2003.

The default rate on MSBDFFA loans was 7% in 2001 and 12.5% in 2002. Almost 90% of MSBDFFA recipients who successfully “graduated” from the program and achieved independent credit worthiness over the last five years were still in business at the end of fiscal 2002. The fiscal 2003 special fund appropriation for the program was \$1,237,620; the fiscal 2004 allowance is \$1,253,884. DBED advises that the Guaranty Fund balance is \$1.3 million.

Other DBED financing programs that insure or guarantee loans include the Small Business Contract Financing Fund, which guarantees up to \$500,000 of loans used for working capital or equipment.

Additional Information

Prior Introductions: None.

Cross File: None, although HB 103 is substantially similar.

Information Source(s): Department of Business and Economic Development,
Department of Legislative Services

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mdf/jr

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