

Department of Legislative Services
Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE
Revised

House Bill 66 (Chair, Environmental Matters Committee)(By Request -
Departmental - Housing and Community Development)

Environmental Matters Education, Health, and Environmental Affairs

**Department of Housing and Community Development - Neighborhood Business
Development Program - Microenterprise Loans**

This departmental bill establishes a new initiative within the Department of Housing and Community Development's (DHCD) Neighborhood Business Development Program to authorize DHCD to partner with intermediary organizations to facilitate better access to capital by microenterprises within designated neighborhoods. Financial assistance provided to microenterprises may be used for development costs, working capital, or business expenses. The bill also exempts a microenterprise located in a designated neighborhood from the requirement to ensure that other significant commitments of private financing are sufficient in conjunction with the assistance received from DHCD.

Fiscal Summary

State Effect: None. The bill is not anticipated to materially affect State finances.

Local Effect: None.

Small Business Effect: DHCD has determined that this bill has minimal or no impact on small business (attached). Legislative Services generally disagrees with this assessment as discussed below. (The attached assessment does not reflect amendments to the bill.)

Analysis

Bill Summary: DHCD may provide financial assistance to an approved intermediary lending entity, which then makes a loan to a qualified microenterprise under the bill.

Alternatively, the bill authorizes DHCD to directly fund a loan to a microenterprise that is originated by an approved intermediary lending entity.

DHCD must adopt standards in regulation regarding the size, training, and experience of the intermediary lending entity's staff, and their capacity to evaluate loan applications and the financial capacity of borrowers.

DHCD may help train the staff of an approved intermediary lender, and may charge borrowers various fees incidental to the provision of loans, which may be included in the loan amount. DHCD may pay intermediary lenders an approved origination, application, and processing fee for each loan made to a microenterprise.

A microenterprise is defined as a business of no more than five employees, requiring no more than \$35,000 in start-up capital or financial assistance, and which does not have access to the traditional commercial banking sector. For a microenterprise project, financial assistance may be used for development costs, working capital, or business expenses.

Current Law: The Neighborhood Business Development Program, now commonly referred to as the Neighborhood BusinessWorks (NBW) Program, was established to:

- help develop, redevelop, or expand small businesses and microenterprises;
- stimulate investment by the private sector;
- invest in revitalization projects for small businesses and microenterprises; and
- encourage local governments to participate in developing and expanding small businesses and microenterprises.

A microenterprise is a business of no more than five employees, requiring no more than \$35,000 in start-up capital, and which does not have access to the traditional commercial banking sector. A microenterprise may qualify for assistance for a project in a designated neighborhood that meets specified statutory requirements.

Background: NBW provides gap financing for small businesses in designated areas approved by local governments with the concurrence of the Secretary of Housing and Community Development. Loan financing ranges from \$25,000 to \$500,000 for an individual borrower and is designed to supplement private financing and equity from the borrower. Applicants must secure private funding in an amount sufficient to provide a 50% match on State loan funds and provide a 5% equity investment to receive a low-interest or deferred payment loan. NBW also provides grants to nonprofit organizations whose activities contribute to community-based economic development

revitalization efforts. Approximately 70% of NBW funds are used for loans to private firms and nonprofits, and 30% for grants to nonprofits.

DHCD advises that locally based intermediary lenders such as community development financial institutions are very familiar with local economic development issues and opportunities in their surrounding communities. Such local organizations are also well positioned to provide technical assistance to area businesses and have direct access to the potential borrowers who may benefit from this program. These lenders can also relieve DHCD of some of the administrative burden of lending directly to microenterprises. DHCD advises that there are about 450,000 microenterprises in Maryland.

State Fiscal Effect: The bill is not anticipated to materially affect DHCD finances. There will likely be a minimal impact in fiscal 2011 to draft regulations and otherwise implement the bill, but any such impact can be handled with existing budgeted resources. Beginning in fiscal 2012 there will be minimal administrative savings as lending to microenterprises is shifted to intermediary lenders. The bill does not affect net program finances; any fee revenue collected by DHCD under the bill is paid to intermediary lenders.

As noted, applicants currently must secure private funding in an amount sufficient to provide a 50% match on State loan funds to receive a low-interest or deferred payment loan. The bill exempts microenterprises from being required to ensure that other significant commitments of private financing are sufficient in conjunction with the assistance received from the NBW program. Legislative Services advises that it is unknown whether and to what extent the regulations under the bill will retain the current private match requirement or equity stake. Should the matching amount be reduced or eliminated, fewer private funds will be leveraged under the program, thus potentially reducing the number of recipients served.

Small Business Effect: The bill has a potential meaningful impact on small businesses that qualify as microenterprises in designated neighborhoods. As discussed, assistance to some microenterprises may increase due to the potential elimination of a private match (pending regulations to be adopted under the bill), while other microenterprises may not receive any funding. However, Legislative Services concurs that if the required match of private funds and equity stake remain unchanged at 50% and 5%, respectively, then the bill has minimal impact on small businesses.

The bill may also have a minimal beneficial impact on any small business community development financial institution that qualifies as an intermediary lender under the bill due to additional business opportunities and revenues from origination, application, and processing fees paid by DHCD.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Housing and Community Development,
Department of Legislative Services

Fiscal Note History: First Reader - February 2, 2010
ncs/lgc Revised - House Third Reader - March 24, 2010

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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Department of Housing and Community Development –
Neighborhood Business Development Program – Microenterprise
Loans

BILL NUMBER: HB 66

PREPARED BY: Maryland Department of Housing and Development

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL
BUSINESS

OR

WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL
BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

The proposed legislation will have no impact on small business in Maryland.