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Joint Committee on Administrative,
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THE MARYLAND HOUSE OF DELEGATES
ANNAPOLIS, MARYLAND 21401

**Testimony in Support of HB 829:
Economic Development – Small Business Financing – Loan Loss Reserve
(Maryland Capital Access Program)**
Economic Matters Committee
February 24, 2021

What This Bill Does

The Maryland Capital Access Program would stimulate the economy and support our small businesses by creating a loan loss reserve program, held by the Department of Commerce. A loan loss reserve program will provide an incentive to lending institutions to provide affordable capital for businesses that struggle to obtain financing from lending institutions.

Lending institutions, defined under this bill as credit unions, certain financial institutions, and community development financial institutions (CDFIs), would apply to participate in the program through a simple application process, which would create an established account for each institution. When small businesses, determined to be those with fifty employees or less, apply for funding through these institutions, the lender may use their own underwriting standards in which they may determine the term, rates, and whether the loan is secured or unsecured. Under this program, the loans must not exceed 10 years of \$250,000.

Upon approving a loan that qualifies, lenders will contribute at least 2% to the reserve fund while borrowers are required to contribute between 0-7% of the loan amount (lenders will assess each borrower's capacity for the contribution on a loan by loan basis). The state then contributes an amount that equals the combined contributions of the lender and borrower to the lender's fund. From the maintained fund, a lender can access funds to recover up to 100% in the event of loan default on qualifying loans.

By creating a loan loss reserve fund, financial institutions will be able to make loans to previously higher-risk borrowers that may have little or no credit. Lenders are incentivized to lend to small businesses by:

1. Providing insurance for lenders that lowers the risk for potential losses;
2. Decreasing the cost of borrowing money to make a loan (via lower interest rates) as a result of lowered risk;

3. Enabling lenders to modify underwriting guidelines to be more flexible on collateral and credit requirements, expanding the pool of potential borrowers;
4. Freeing up more capital for CFDEs and credit unions so that they can make more loans to those that the banks can't or won't lend to, such as those with no or low credit history.

While the initial fund will be supported through a one-time appropriation of \$10,000,000 through the annual budget bill, the program will become self-sustaining thereafter, not requiring an annual appropriation.

Why This Bill Matters

Lending to small businesses has decreased in recent years. The state must do more to ensure our small businesses have access to the capital they need to open, operate, and grow.

Loan loss reserve programs are proven financing mechanisms used across the country to build up small businesses. Such programs are a market-based approach to supporting economically disadvantaged communities. Financing more small businesses will create jobs, grow the economy, and support communities across the state.

Establishing a loan loss reserve program will also position Maryland for impending funding from the federal government. The Biden administration's proposed stimulus package includes \$15 billion in small business grants and another \$35 billion in low-cost capital for small businesses. This federal program will allocate money to state development finance agencies to support existing lending programs or to create new ones. By having an established program, Maryland will be well-positioned to utilize federal funding to help even more businesses obtain the capital they need,

The COVID-19 pandemic has hurt small businesses the most. Small businesses have faced increased burdens as they have worked to adapt to a remote environment, provide curbside services, enhance facilities to comply with pandemic-related requirements, and struggled generally with maintaining pre-pandemic levels of business. Allowing small businesses greater access to funding can help them grow stronger than ever.

Why You Should Vote For This Bill

Passing this bill will allow Maryland to deliver the most flexible, affordable, and accessible capital available to its struggling small businesses. It is a low-cost way for the State to support a market-based solution to small business funding needs.

This legislation will provide access to the critical funding our small businesses need. With its potential to provide financial relief to small businesses, create jobs, and improve the economy, we respectfully request that you vote favorably on HB 829.