HB829 / SB788 (Delegate Lierman / Senator Hester)

Maryland Capital Access Program

Small Business Financing - Loan Loss Reserve Fund

The Maryland Capital Access Program (MD CAP) encourages banks and other financial institutions to make loans to small businesses that have difficulty obtaining financing.

What the bill does

- Creates a loan loss reserve program, managed by the Department of Commerce, for financial institutions making qualified loans. Each time a qualifying loan is made to a small business, a percentage of the loan amount is deposited into the loan loss reserve account <u>by the lender, the borrower, and the State</u>.
- The loan loss reserve account creates a form of <u>loan portfolio insurance</u> for each lending institution which can provide <u>up to 100% coverage on certain loan defaults</u>. MD CAP is based on a proven financing mechanism to help meet the lending needs of small businesses.

How it works

- A lender completes a simple application to participate in the MD CAP program.
- A small business reaches out to a lender for financing and a loan is made based on the lender's <u>own</u> underwriting standards.
    - Loans can be short or long-term, have fixed or variable rates, be secured or unsecured, and bear any type of amortization schedule.
- The lender sends a simple application to the Dept of Commerce with the loan details.
    - <u>A qualifying loan</u> is one that is made to a small business with fewer than 50 employees, does not exceed 10 years, and does not exceed $250,000.
- If the loan is deemed qualifying under the MD CAP program:
    - The lender contributes at least 2%
    - The borrower contributes between 0% and 7%
    - The State contributes an amount equal to the borrower and lender's aggregate payment
- These funds get deposited into the lender's MD CAP <u>loan loss reserve account</u>. There is a unique loan loss reserve account for <u>each</u> participating lender.
- The lender can access the funds in their loan loss reserve account to recoup costs on defaults from qualifying loans.
- The Governor will make a one-time appropriation of $10,00,000 in the annual budget bill to fund the program. It is intended to be self-sustaining thereafter.

Why the bill is important

The MD CAP program will stimulate opportunities for small businesses to access affordable capital, especially those that have been unable to or have had difficulty obtaining loans from traditional financial institutions in the past. <u>The loan loss reserve account will give lenders the confidence to modify underwriting guidelines and be more flexible on collateral and credit requirements</u>. Further, particularly for CDFIs, the loan loss reserve account can decrease the cost of borrowing money. The program motivates lenders to bank a wider band of businesses with the assurance that losses can be recovered from the loan loss reserve account.