



Larry Hogan | Governor
Boyd Rutherford | Lt. Governor
Kelly M. Schulz | Secretary of Commerce

DATE: March 16, 2021
BILL NO: Senate Bill 788
BILL TITLE: Economic Development - Small Business Financing - Loan Loss Reserve (Maryland Capital Access Program)
COMMITTEE: Senate Finance and Budget & Taxation

Statement of Information

Senate Bill 788 establishes a loan loss reserve program, administered by the Maryland Department of Commerce (Commerce), as an inducement for lenders to extend credit to small businesses that may have difficulty in obtaining financing. In fiscal year 2023, the legislation requires the Governor to include an appropriation of \$10 million to the program. It notes the intent of the General Assembly that \$50,000,000 of financial assistance provided by the federal government to the State in response to the coronavirus pandemic on or after January 1, 2021, be distributed to capitalize the program, if the purpose of the program is a permissible use of the financial assistance.

The legislation stipulates participating lenders would establish their lending criteria. Qualifying loans could not exceed \$250,000; must have a term of ten years or less; and the lender must enroll the loan in the program not more than 30 days after the date of the first disbursement. The lender and borrower would make prescribed payments to the program, the aggregate of which Commerce would be required to match. Lenders could draw on the program as partial reimbursement of loan losses.

Lenders and their small business borrowers would bear significant costs to participate in the program. For example, the legislation requires payment to the program by the lender and borrower when a loan is made, which serves to increase the loan amount by a minimum of 4% to 7% and possibly greater. A lender would pass its cost to the borrower. The result for the small business borrower is more interest expense and future principal payments. Lack of participation by the lenders would result in state funds required by the legislation to go unutilized.

The amount of additional staff needed to administer the program is uncertain due to unknown demand among potential lenders and their borrowers. At a minimum Commerce would require one new program manager.

Several small business financing programs with the capacity to provide individual loans up to \$250,000 are already in existence and see active utilization. The Maryland Department of Housing and Community Development's Neighborhood BusinessWorks provides flexible business lending programs, and it possesses a loan loss reserve program capability. Additionally, the Small, Minority and Women-Owned Business Account - Video Lottery Terminal Fund (VLT) small business lending program is well funded and its local fund managers are a proven and effective distribution channel. The Maryland Industrial Development Financing Authority remains available to stimulate bank lending through its collateral deficiency guarantee but it sees little interest among lenders, despite Commerce's efforts marketing the program through county economic development officials and lenders.