

Testimony in Support of Senate Bill 1008
Economic Development: Small Business Guaranty Fund – Alterations
Maryland Small Business Development Financing Authority
(Department of Commerce)

March 11, 2025

The Honorable Senator Pamela Beidle, Chair
Senate Rules Committee
11 Bladen Street, 3 East Miller Senate Office Building
Annapolis, Maryland 21401

The Honorable Senator Antonio Hayes, Vice Chair
Senate Rules Committee
11 Bladen Street, 223 James Senate Office Building
Annapolis, Maryland 21401

Dear Madame Chair Beidle, Mr. Vice Chair Hayes and distinguished Members of the Senate Finance Committee:

My name is Timothy Smoot, Exec. Vice President of Meridian Management Group, more commonly known as MMG Capital Group. We are the private fund manager of the Maryland Small Business Development Financing Authority (MSBDFA), and we want to thank you for allowing us to provide testimony in support of the Senate Bill 1008. As managers of MSBDFA, it is our responsibility to promote the financing opportunities available to small, minority-owned, women-owned and other disadvantaged businesses throughout the state, processing their applications, underwriting their loan request, presenting their requests to the 9-member loan committee, coordinating their loan settlements and work with their owners as they try to start and grow their businesses.

I want to emphasize the fact that SB 1008 is long overdue. The Loan Guaranty Fund has been used only sparingly over the course of the past decade. The banking world changed significantly since the turn of the century, and it's time the state changes its strategy to work with them to help our emerging businesses.

Let me first put the program's function into context and then explain the role this bill can play. A loan guaranty would generally be considered when:

- A. When a loan applicant has net losses that are not significant and has the potential to become profitable in the near future;
- B. When the owner's credit scores are fair, but below the 675 minimum threshold;
- C. When the company and/or its owner does not have sufficient collateral to secure

the loan; or

- D. When the bank is not comfortable providing the amount of funding the customer is requesting, but really needs to carry-out its plan.

MSBDFA can guarantee up to 80% of a loan loss incurred by a bank or another private lender. Historically, they have ranged from 50% – 80%. And, it's important to note 2 things: (1) that the guarantee is a **deficiency guarantee**, meaning that, as the loans are paid down, the amount of the guarantee is reduced as well; and (2) that a bank must take the actions it would normally take to recover the unpaid balance of the loan from the borrower before receiving the benefit of the guarantee.

For example,

- A \$500,000 loan could receive a 60% guarantee, or \$300,000 to secure a loan.
- The borrower, over time, reduces the loan balance to \$275,000 when it ultimately goes into default and is unable to repay.
- The bank recovers \$50,000 from the borrower's collateral, reducing its loss to \$225,000;
 - The bank would be entitled to receive \$135,000 (\$225,000 x 60%) of guarantee funds to cover a portion of its losses.
 - If cash was used for the guarantee, the remaining \$165,000 would be returned to MSBDFA to make other loans or provide other guarantees.

SB 1008 is an ideal remedy in the quest to combat the constant battle for access to capital for small, minority-owned, women-owned and other disadvantaged businesses:

- It provides the banks an incentive to give additional consideration to a business that carries more risks that it typically would consider;
- It allows MSBDFA's Guaranty Fund to leverage its existing dollars and its administrative energy to assist more businesses (See attached analysis); and
- It encourages the practice and highlights the benefits of a very broad public-private partnership.

And, the beauty of this amendment is that (1) it **does not require the Full-Faith and Credit** of the State Treasury to be effective and (2) it **does not require additional funding**. It allows MSBDFA to leverage its existing funds to help more businesses. There is really no downside to SB 1008.

We appreciate your time and strongly urge you to support the Bill. I am happy to answer any questions.

SB 1008: MSBDFA Loan Guaranty Fund Amendment

A Comparative Analysis

Direct Loan from MSBDFA	<u>Loan Amount</u>	<u>Funds Required</u>
ABC Enterprises, LLC	\$ 500,000	\$ 500,000

vs.

Loan Guaranty to a Bank

ABC Enterprises, LLC	<u>500,000</u>	<u>300,000</u>
Funds Remaining to Assist Other Businesses		\$ 200,000

Add'l Direct Loans from MSBDFA

CBS Seafood, LLC	\$ 100,000
123 Physical Therapy, Inc.	\$ 100,000

Conclusion: Potentially loans to 3 businesses instead of 1