

N. SCOTT PHILLIPS, Esq.
Legislative District 10
Baltimore County
—
Judiciary Committee



The Maryland House of Delegates
6 Bladen Street, Room 319
Annapolis, Maryland 21401
410-841-3358 · 301-858-3358
800-492-7122 Ext. 3358
N.Scott.Phillips@house.state.md.us

THE MARYLAND HOUSE OF DELEGATES
ANNAPOLIS, MARYLAND 21401

Testimony in Support of House Bill 601 – Economic Development: Small Business Guaranty Fund – Alterations
February 20, 2025

Madame Chair Atterberry, Vice-Chair Wilkins and Members of the Ways and Means Committee, For the record, N. Scott Phillips, representing the 10th Legislative District. I am here today requesting a favorable report for House Bill 601, which would expand the circumstances under which the Maryland Small Business Development Financing Authority may provide financial support to small businesses through the Small Business Guaranty Fund.

The Authority focuses on providing term loans, open and revolving lines of credit, demand loans, letters of credit and loan guaranties to benefit, socially and economically disadvantaged businesses, women-owned businesses and entrepreneurs who have limited access to capital to start and grow their businesses.

HB 601 would expand the fund’s ability to assist firms by leveraging the full faith and credit of the State of Maryland to enhance access to capital for small businesses.

Maryland’s small businesses are the backbone of our economy, driving job creation, innovation, and community development. However, many small businesses struggle to access the capital they need to start, grow, and sustain operations. Traditional lending institutions often perceive small businesses as high risk, particularly those owned by minority entrepreneurs, women, and startups without substantial collateral. The current Loan Guaranty Fund has played a critical role in helping businesses secure loans, but its impact is limited by the finite resources available within the fund.

The Need for Expansion

Under the current model, the Loan Guaranty Fund is constrained by the limited pool of assets available to back loan guarantees. Once the fund’s resources are committed, no additional loan guarantees can be issued until it is replenished—leaving many businesses without the financial support they need.

If we expand the program by leveraging the full faith and credit of the State of Maryland, we can significantly increase loan availability and improve borrowing conditions for Maryland’s small businesses. This expansion would provide the following key benefits:

1. Increased Loan Guarantee Capacity

By shifting from a limited fund to a state-backed guarantee, lenders will have greater confidence in extending credit.

The program will no longer be restricted by the size of the guaranty fund, allowing more businesses to qualify for loans.

2. Lower Interest Rates and Improved Loan Terms

When the state guarantees a loan, lenders view the risk as lower, allowing them to offer reduced interest rates, longer repayment terms, and larger loan amounts.

Small businesses will be able to access credit at more affordable rates, leading to greater investment in job creation and business expansion.

3. Expanding Access to Underserved Entrepreneurs

Historically underserved businesses, including minority-owned and women-owned enterprises, often lack the collateral or credit history to obtain financing.

A state-backed guarantee program would increase financial inclusion and ensure that all Maryland entrepreneurs have a fair opportunity to grow.

4. Strengthening Maryland's Economy

More accessible financing means more small businesses will be able to expand, create jobs, and contribute to Maryland's economy.

Increased small business activity will result in higher tax revenues, reducing the long-term financial burden on the state.

5. Potential to Leverage Federal and Private Investment

A state-backed guarantee program could position Maryland to receive federal matching funds or partner with private investors, further amplifying the program's reach and impact.

Addressing Potential Concerns

Some may argue that leveraging the state's full faith and credit presents a financial risk. However, historical data suggests that loan defaults under guarantee programs are relatively low—especially when paired with proper underwriting standards and business development support. Additionally, the economic benefits generated by increased small business lending far outweigh the potential liabilities.

The state already extends credit guarantees for infrastructure and housing projects—it is time to extend the same commitment to the small businesses that fuel Maryland's economy.

Conclusion

By expanding the Maryland Small Business Development Fund Loan Guaranty Program and backing it with the full faith and credit of the state, we can create a more robust, inclusive, and sustainable financial ecosystem for Maryland's entrepreneurs. This is a strategic investment in our economy, our communities, and our future.

I respectfully request a favorable report for HB 601. Thank you for your time and consideration.