

**Department of Legislative Services**  
 Maryland General Assembly  
 2021 Session

**FISCAL AND POLICY NOTE**  
**Third Reader - Revised**

House Bill 829

(Delegate Lierman)

Economic Matters

Finance and Budget and Taxation

**Economic Development – Small Business Financing – Loan Loss Reserve**  
**(Maryland Capital Access Program)**

This bill establishes the Capital Access Program in the Department of Commerce, subject to specified requirements. The purpose of the program is to stimulate opportunities for small businesses that may have difficulty in obtaining business financing to have access to credit by establishing a loan loss reserve program.

**Fiscal Summary**

**State Effect:** General fund expenditures increase by at least \$1.1 million in FY 2022 and by at least \$0.1 million annually thereafter to initially capitalize the program and pay for staff and related expenses, under the assumptions discussed below. This estimate assumes that programmatic activity is otherwise nonbudgeted (and not shown below).

(\$ in millions)	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
NonBud Rev.	-	-	-	-	-
GF Expenditure	\$1.1	\$0.1	\$0.1	\$0.1	\$0.1
NonBud Exp.	-	-	-	-	-
Net Effect	(\$1.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)

*Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease*

**Local Effect:** The bill does not materially affect local government finances or operations.

**Small Business Effect:** Potential meaningful.

## Analysis

**Bill Summary:** Subject to specified eligibility and loan structure requirements, Commerce must establish a loan loss reserve account for a lender when a lender enrolls its first loan under the program. Eligible borrowers must have fewer than 50 employees and qualify as a small business under U.S. Small Business Administration [size standards](#). Loans may not be for longer than 10 years and may not exceed \$250,000. Eligible lenders are credit unions, financial institutions, and community development financial institutions, as those terms are defined in current law. At the time of enrollment:

- the borrower must make a payment to the account of between 0% and 7% of the enrolled loan amount;
- the lender must make a payment to the account of at least 2% of the enrolled amount; and
- Commerce must make a matching payment to the account in an amount equal to the borrower and lender's aggregate payment (minimum of 2% of the enrolled amount).

The loan loss reserve account of a lender must be available for the lender to withdraw if a borrower defaults on a qualifying loan, subject to procedures that must be adopted by Commerce.

**Current Law:** A capital access program as established in the bill does not exist in Commerce, although a similar type of incentive is offered through the Maryland Small Business Development Financing Authority's (MSBDF) Long-term Guaranty Program, which provides guarantees for loans made by a financial institution (up to \$2.0 million). MSBDF in general provides financing options for small businesses that are not able to qualify for financing from private lending institutions or are owned by socially and economically disadvantaged persons. A number of other State programs are also designed to assist small businesses.

**State Fiscal Effect:** Commerce advises that, at a minimum, a program manager is required to administer the program, with support from other departmental legal, marketing, business development, and accounting staff, and that the department's existing staff are currently fully subscribed. In the absence of a funding mandate or intent language specifying a funding level for the program, this estimate assumes that \$1.0 million is provided in fiscal 2022 to initially capitalize the program. Actual funding provided on a discretionary basis to the program may vary from this estimate, but Commerce requires at least the staff assistance described above.

Accordingly, general fund expenditures increase by at least \$1,088,053 in fiscal 2022, which reflects the bill's October 1, 2021 effective date. This estimate reflects the cost of

hiring one program manager to oversee the general administration of the program, in conjunction with general support from existing Commerce staff. It includes a salary, fringe benefits, one-time start-up costs, ongoing operating expenses, and an (assumed and discretionary) one-time program capitalization.

Position	1.0
Salary and Fringe Benefits	\$82,472
Program Capitalization	1,000,000
Operating Expenses	<u>5,581</u>
<b>Total FY 2022 State Expenditures</b>	<b>\$1,088,053</b>

Future year expenditures reflect a full salary with annual increases, employee turnover, and ongoing operating expenses.

Expenditures further increase to the extent that Commerce legal, marketing, business development, and accounting staff are unable to provide necessary support to the program, due to other responsibilities at the time; such costs could easily exceed \$50,000 annually, depending on the scope of the program going forward. Expenditures also increase in future years to the extent that \$1.0 million is insufficient to continue matching deposits.

This estimate assumes that programmatic activity – depositing the State match, making payments on defaulting loans, *etc.* – is nonbudgeted and begins in fiscal 2022. Assuming the minimum State match of 2%, \$1.0 million matches payments on \$50.0 million of enrolled loans. If the State match percentage increases due to borrowers and lenders making larger payments into the loan loss reserve account, the program can match a lesser total amount of loans.

**Small Business Effect:** Small businesses benefit from a potential source of financing to the extent that lenders opt to participate and the program facilitates lending that would not have occurred otherwise. As designed, small businesses may provide upfront deposits of between 0% and 7% of the loan amount, so the benefit will also depend on the required deposit. The Department of Housing and Community Development used to offer a [similar program](#) to the one established by the bill but stopped due to a lack of interest by lenders.

**Additional Comments:** The required small business match is “between 0% and 7% of the enrolled loan amount” – which is unclear. This analysis assumes that the range is inclusive of 0% (*i.e.*, no match) and 7%.

## Additional Information

**Prior Introductions:** None.

**Designated Cross File:** SB 788 (Senator Hester, *et al.*) - Finance and Budget and Taxation.

**Information Source(s):** Department of Commerce; Department of Budget and Management; Department of Housing and Community Development; Department of Legislative Services

**Fiscal Note History:** First Reader - February 22, 2021  
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