



HOUSE ECONOMIC MATTERS COMMITTEE
Written Testimony of Mark Kaufman
House Bill 829
Submitted 2/22/21

Chairman Davis and members of the Committee, I am pleased to testify in favor of House Bill 829. The bill would create the Maryland Capital Access Program, an innovative and flexible credit support program to encourage much needed small business lending. Moreover, I would recommend amending the bill to provide a more generous match for Community Development Financial Institutions (CDFIs). These institutions are critical to furthering credit availability, particularly in low income communities, and struggle to obtain adequate loan loss coverage to support their mission-based lending activities.

I currently serve as President of the Neighborhood Impact Investment Fund (NIIF), a newly certified, non-profit CDFI in Baltimore City. Launched in 2019, NIIF is a place-based loan fund with a mission to deliver capital and promote inclusive, equitable growth in Baltimore's historically disinvested neighborhoods. We have committed over \$15 million to date, often in transactions that would not proceed without vital support from the State of Maryland. NIIF loans feature more flexible collateral and credit requirements than are available in traditional bank loans.

Much of our lending is real estate-based - supporting affordable housing or community facilities. At the same time, we recognize the importance of small business and have been leveraging our capital to assist mission-based small business lenders who are working to reach this market on a daily basis. In two years, we have provided low-cost loans to support the activities of Baltimore Business Lending, Latino Economic Development Center, the Arctaris Baltimore Fund and, most recently, Opportunity Fund. We are hopeful to leverage credit support from MD CAP to further such efforts and believe the program has great promise for our lending partners and our communities.

The challenges that Maryland's small businesses face in accessing credit are well documented. The problem is particularly pronounced in Baltimore City as highlighted in a 2018 report led by former Treasury Undersecretary Mary Miller and the Johns Hopkins 21st Century Cities Initiative. Among its findings, the report noted that "Bank loan transactions and dollar amounts in Baltimore were significantly lower in 2016 than 2007. Total small business lending fell from 17,084 loans totaling \$457 million in 2007 to 8,274 loans totaling \$307 million in 2016."¹

Absent access to credit, small businesses cannot succeed and scale. Job growth and wealth creation are stifled. Reversing these trends and promoting access to affordable small business credit is vital to the

¹ <https://21cc.jhu.edu/publications/reports/financing-baltimores-growth-strengthening-lending-to-small-businesses/>

success of our state and our city. The issue will be particularly important as we emerge from the COVID crisis which has inflicted severe damage on the small business ecosystem.

The 21st Century Cities report proposed a series of potential solutions and highlighted the opportunity to “realize more leverage from public sources as a guarantee fund for private lending.” The Maryland Capital Access Program or “MD CAP” created by HB 829 is just such a guarantee fund initiative.

MD CAP is modeled after successful capital access programs that have been implemented in other states, most notably the California Capital Access Program or “CALCAP.” CALCAP has been in operation for over 25 years and, according to data from the Urban Institute, as of the end of 2017, “the program had enrolled more than 18,500 loans with total principal of more than \$1.2 billion. Lenders have included banks, nonbanks, and CDFI loan funds, among others.”²

MD CAP functions as a credit support program, encouraging responsible small business lending by banks, CDFI loan funds, and credit unions through the provision of match funding for a dedicated loan loss reserve account for that lender to be held by the Department of Commerce. For each qualifying loan, funds are set aside by the lender and then matched by the state in a dedicated account. Additional loans further add to the reserve account balance, and the reserve account can then be used to offset any subsequent losses on the loans that have been enrolled.

The MD CAP structure has several key advantages to highlight --

- 1) Proof of concept - The CAP structure is not new. The legislation and subsequent implementing regulations can be based on two decades of practical experience.
- 2) Speed of origination - Originating small business loans is difficult and time consuming. By leaving the credit decisioning with the lender and enrolling the loans in the program AFTER origination, the MD CAP reduces turnaround time and speeds deliver of the loan to the borrower who needs it.
- 3) Flexibility built into program design - MD CAP is highly flexible. Most importantly, matching levels can be adjusted easily to increase or decrease volume, or to achieve specific policy objectives. For example, loans in lower income areas could be provided a higher match level to encourage origination.
- 4) Breadth of access - MD CAP is accessible to a variety of lenders - CDFIs, traditional banks or credit unions.

Finally, it is worth noting that federal funding to support MD CAP may be soon available through COVID recovery legislation at the Federal level. In 2010, to promote recovery from the Great Recession, Congress enacted the Small Business Jobs Act of 2010 which, among other things, created the State Small Business Credit Initiative (SSBCI). SSBCI provided nearly \$1.5 billion to state small business financing programs. While Maryland applied its funds in other ways, several states, including California,

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https://www.urban.org/sites/default/files/publication/98051/capital_access_programs_cdfi_case_study_on_the_california_capital_access_programs_0.pdf

Michigan, New York, North Carolina, and Massachusetts, used their funds to capitalize similar capital access programs.

With Congress now considering COVID relief legislation, SSBCI is likely to be re-authorized, and I understand that the recently proposed House bill has \$10 billion for SSBCI - more than 6x the funding provided to states in the last round. The Maryland portion of SSBCI could fund MD CAP while also funding a range of other important small business programs already in place.

I encourage this Committee to support HB 829 and the creation of MD CAP. Moreover, I urge consideration of an amendment that would increase the state match provided for qualifying loans made by CDFIs. These mission based lending institutions certified by Treasury based on their activities. While Maryland has several CDFIs, many are small and supporting increased loan loss reserves is a major impediment to their growth. Enhancing the match would have the double benefit of increasing credit provided on a targeted basis to the communities and borrowers that are most challenged and strengthening our state's network of community-focused lending institutions.