

SB 1008 Testimony (Committee) .pdf

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Position: FAV

ANTONIO HAYES
Legislative District 40
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—
Vice Chair
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THE SENATE OF MARYLAND
ANNAPOLIS, MARYLAND 21401

Tuesday, March 11, 2025

**Testimony in Support of SB 1008 – Economic Development – Small Business Guaranty
Fund – Alterations**

Dear Chair Beidle and Members of the Senate Finance Committee,

I am writing to express my strong support for Senate Bill 1008, which seeks to strengthen the Small Business Guaranty Fund by expanding the financial instruments available to back guarantees and ensuring the state's commitment to fostering small business growth. This legislation is one of the priorities of the legislative black caucus and is a critical step in improving access to capital for Maryland's small businesses.

The Small Business Guaranty Fund plays a vital role in supporting small businesses by providing loan guarantees to entrepreneurs who may otherwise struggle to secure financing. SB 1008 enhances this program by allowing the guarantees to be backed by the full faith and credit of the State of Maryland. Additionally, the bill expands the types of financial instruments that can be used for guarantees, including irrevocable letters of credit, escrow accounts, and official treasurer's checks.

By implementing these changes, SB 1008 will:

- **Increase Lender Confidence** – By securing loan guarantees with the state's full faith and credit, financial institutions will have greater assurance in extending capital to small businesses.

- **Expand Funding Access** – The inclusion of multiple financial instruments provides flexibility, making it easier for businesses to secure necessary funding.
- **Support Economic Growth** – Strengthening the Small Business Guaranty Fund will empower entrepreneurs, promote job creation, and drive economic development throughout Maryland.

This legislation represents a strategic investment in our small business community and ensures that Maryland entrepreneurs have the resources they need to thrive. I urge the committee to issue a favorable report on Senate Bill 1008.

Thank you for your consideration.

Respectfully,



Senator Antonio L. Hayes
40th Legislative District – MD

SB1008_LBCMD_FAV

Uploaded by: Legislative Black Caucus of Maryland

Position: FAV



LEGISLATIVE BLACK CAUCUS OF MARYLAND, INC.

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March 11, 2025

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Chair Pam Beidle
Finance Committee
2 Miller East Senate Building
Annapolis, Maryland 21401

Dear Chair Beidle, Vice Chair Hayes, and Members of the Committee,

The Legislative Black Caucus of Maryland offers its strong and favorable support for Senate Bill 1008 (SB1008) – Economic Development – Small Business Guaranty Fund – Alterations. This bill expands financial opportunities for small businesses by strengthening the Small Business Guaranty Fund (SBGF), allowing loan guarantees to be backed by the full faith and credit of Maryland or through additional financial instruments. By increasing access to capital for small businesses, SB1008 directly addresses long-standing economic disparities that disproportionately affect Black entrepreneurs and communities. **SB1008 is a 2025 legislative priority for the Black Caucus.**

Black-owned businesses face significant barriers to accessing capital, which directly impacts economic mobility in Black communities. According to the Federal Reserve, only 26% of Black business owners are approved for the funding they seek, compared to 60% of white business owners. In Maryland, where Black residents make up nearly one-third of the population, Black-owned businesses receive less than 3% of conventional small business loans, limiting their ability to grow, hire employees, and build generational wealth.

A report from the U.S. Small Business Administration found that small businesses create two-thirds of net new jobs, yet Black-owned businesses are denied loans at more than twice the rate of their white counterparts, even when controlling for creditworthiness. By strengthening the Small Business Guaranty Fund, SB1008 ensures that more Black entrepreneurs can access fair lending opportunities, helping them overcome systemic lending disparities and fostering job creation within historically marginalized communities.

Expanding financial backing options for business loans directly supports Black Marylanders, as Black entrepreneurs are more likely to rely on personal savings and high-interest loans due to institutional barriers in traditional lending. The guarantee enhancements in SB1008 increase the willingness of banks to lend, ensuring that viable Black-owned businesses are

not denied capital solely due to lack of collateral or historical lending discrimination. This measure also aligns with broader state efforts to close the racial wealth gap and promote economic self-sufficiency.

For these reasons, the Legislative Black Caucus of Maryland strongly supports Senate Bill 1008.

Legislative Black Caucus of Maryland

SB1008_MMG_FAV

Uploaded by: Timothy Smoot

Position: FAV

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.

MSBDFFA 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 ($\$225,000 \times 60\%$) 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 MSBDFFA 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 MSBDFFA'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 MSBDFFA 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: MSBDFFA Loan Guaranty Fund Amendment

A Comparative Analysis

	<u>Loan Amount</u>	<u>Funds Required</u>
Direct Loan from MSBDFFA		
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 MSBDFFA

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

Conclusion: Potentially loans to 3 businesses instead of 1