

Good Afternoon

I am **Shelly Gross-Wade, President & CEO**, of the Prince George's Financial Services Corporation (aka FSC First). For more than 37 years, FSC First has served as the premier lender of non-traditional financing for local small and minority-owned businesses in Prince George's County and indeed the State of Maryland.

It is my esteem pleasure to serve on today's panel at the invitation of Senator Ben Cardin, the Ranking Member of the U. S. Senate Committee on Small Business & Entrepreneurship. The timing of this presentation could not be better for our economic development finance organization and our business community.

Within the past week, the Board of Directors of FSC First hosted a Focus Group of Business Owners to identify some of the key challenges faced by small businesses in the County – not the least of which was their concern for access to capital. There is a perception that dealing with banks (lenders), in general, is an extremely protracted process. According to participants in the Focus Group which represented diversity by ethnicity as well as company revenue size, number of employees and revenue size; it was shared that in regards to banking, African American [business owners] are often paralyzed when it comes to accessing loans and other financial services from bankers.

One participant described their process as difficult to surge growth when it takes 6-9 months for a credit decision, especially when the decision is reached based more on the qualifications of the owner and less on the business, the industry, the services and needs being met in the marketplace. The other problem that was alluded to was gaining access to capital in general. Another business owner described the critical need for the lender to understand the business operating cycle and how important cash flow is to their sustainability – again, demonstrative of the need to change the paradigm for credit analysis so that it is more reliant on the future growth potential of the company rather than their past operating history – which is often indicative of inadequate capitalization. More importantly, all of the participants participating in the Focus Group expressed a need for business coaching and mentoring – what we in the economic development community refer to as Technical Assistance (to include training).

As a Community Development Finance Institution (CDFI) we, at FSC First, take pride in our ability to operate a nimble organization. CDFI's are encouraged to remove barriers to credit (to the extent possible) – to take on a little more risk, as well as implement innovative and creative approaches to providing access to capital in the community we serve. We operate a best-practice model for a public-private partnership in our approximately \$4 million revolving loan fund. The loans offered through our revolving loan fund range from \$25,000 to \$350,000; at market rate and terms of up to 10 years, depending upon the use of loan proceeds.

As a Microfinance Lender, we offer loans that range from \$5,000 to \$25,000; with very creative terms, rates and conditions.

Also, we serve as a Lender Service Provider – offering loan administration services and for municipal and non-bank lenders. For example, we manage:

- ✚ \$200,000 City of Bowie RLF
- ✚ \$200,000 MD DHCD MicroEnterprise Loan Fund (sustainable communities)
- ✚ \$500,000 Economic Development RLF
- ✚ \$8.5 MM HUD 108 RLF; and the County's signature program --
- ✚ \$50 MM EDI Fund

All of these programs are designed to work in tandem with each other and finance every conceivable capital need that a Minority Business might have: day-to-day working capital, marketing, payroll, modernization of the facility and upgrade of the equipment, acquisition of commercial real estate, land for expansion purposes. They are also designed to participate in a subordinated lien position with traditional lending products; thus allowing the lender to take a priority lien interest in the accesses of the business being financed.

At FSC First, these programs have been used to finance all types of industries and business sizes. We rarely decline a business because it does not meet the SBA definition of a small business – which varies from industry to industry, by NAICS Code.

Finally, as a Certified Development Company (CDC), we are designated by the U. S. Small Business Administration to market, analyze, underwrite, close, fund and service long-term fixed asset loans under the SBA 504 Real Estate Acquisition Loan Fund anywhere in the State of Maryland. This program is designed to assist any eligible company with transitioning from a leased facility to an owner-occupied facility. The benefits are tremendous – if you are buying fixed assets, e.g. machinery – the SBA 504 portion of the transaction has a fixed interest rate for 10 years. Of course, if you are buying a facility, and intends to occupy at least 50% of it for your revenue-generating business, you would benefit from a below market, fixed rate mortgage for 20 years. A major feature of this program is that the mortgage is assumable should you decide to sell the business assets. This program is great for building legacy wealthy for the business and its owners.

Recognizing that Minority Business Owners have been historically disadvantaged to meet the minimum equity requirement – typically 10% of the total project cost, FSC First will work with the business owner to identify additional forms of debt that will serve as the equity in the SBA 504 transaction.

We accept the challenge to identify other sources of capital that can be stacked to support the viability of the transaction.

Other forms of capital, that would need to subordinate to the SBA 504 portion of the loan transaction would include:

- ✚ Sellers take-back note
- ✚ Owners equity
- ✚ Subordinated debt (public and private sources)
- ✚ Grants and Tax Credits

Creating Economic Impact

- ✚ \$21.4 Million under management
- ✚ Less than 1% default ratio in the loan portfolios
- ✚ 2,015 jobs supported over the past 4 years
- ✚ 60% increase in Approved Loans/Pending Closing as of 6/30/14; totaling \$13.5 Million
- ✚ 43% increase in Loan Commitments over prior year; supporting new Commitments of \$9.2 Million

From the non-traditional lenders perspective, here are the challenges business owners present that impedes their ability to gain (timely) access to capital:

- 1. Lack of awareness of the availability of capital – sources and uses**
- 2. Lack of preparedness to access the capital sources**
- 3. Limited knowledge about threats and opportunities in the marketplace**
- 4. Inability to maintain and share quality financial information on the business in a timely manner**
- 5. Resistance to transparency**
- 6. Inability to meet the lenders conditions to proceed to closing**
- 7. Lack of performance (reporting conditions) post-closing**
- 8. Lifestyle challenges**

Non-bank lenders, like FSC First, serve to provide gap financing. We serve as your intermediary lender until such time as you are qualified for or can meet the performance requirements of a traditional lender, venture capitals or equity fund. Typical terms are 3-5 years; but terms may extend up to 10 years for non-real estate loan transactions and up to 20 years on commercial real estate.

Our goal is to serve as a mission-driven lender – with the primary mission being to provide access to capital (either directly or indirectly) to eligible businesses. We are committed to assisting the business owners with qualifying for traditional financing (extended lines of credit, letters of credit, term loans, first trust mortgages, etc.) at levels that sustain the growth of the company.

The advantage to working with a non-bank lender, like FSC First, is that you may also receive wrap-around, our holistic, services in the form of technical assistance, licensing and permitting, training, coaching and mentoring. Unlike an equity investor, we typically take no ownership interest in the business, but determine its viability based on the short- and long-term economic impact to be realized as a result of the funding we provide.

In conclusion, we welcome the opportunity to work with sustainable businesses and have a goal of lending \$6.8 Million through June 30, 2015. FSC First is accessible in person, by voice, email and the worldwide web at www.fscfirst.com.