TESTIMONY OF TIMOTHY L. SMOOT
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Before the

U.S. Senate Small Business Committee
The Honorable Ben Cardin, Ranking Member

on

"Strengthening Access to Capital for Minority-Owned Small Businesses"

Mr. Chairman and Members: First, I would like to thank you for the opportunity to appear before you today, and also thank you for convening this hearing on such an important topic to the State of Maryland and, indeed, our entire country as a whole.

My name is Timothy Smoot, Sr. Vice President, Co-Founder and CFO of Meridian Management Group, Inc. (hereafter "MMG"), a minority-owned fund manager that provides capital to small, minority, women and veteran-owned businesses, primarily based in the state of Maryland. The majority of fund's managed by MMG are from federal and state resources. The lion's share of businesses we assist are unable to obtain financing from Banks and other traditional sources of financing. MMG has a 23-year track record of excellence in managing funds in this arena.

That being said, "Access to Capital" has always been the "Number One" obstacle of the expansion of minority businesses. My partners and I have been in the commercial lending business for 35 years or more. I recall, disparity study after disparity study concluding the relatively same predicament – minority entrepreneurs being much more likely to be declined for financing than their white counterparts (by significant margins), being approved for loans in much smaller amounts or being forced to use more expensive forms of financing among many others. Some of the most recent studies include the U.S. Small Business Administration, the Maryland Department of Transportation, the Federal Reserve Bank of Cleveland, Harvard University and Johns Hopkins University. An executive summary from the Cleveland study is attached to this study for your reference and support for my testimony.

Most of studies found that more minority businesses have become more successful in obtaining credit cards and microloans, which are helpful. However, they also conclude that, as stated in one study, "those loans cannot replace the importance of larger working capital loans needed to grow" small businesses in a significant way. They also appear to be gaining more access to higher interest rate funding. But, it very difficult trying to grow a business when the cost of capital is 15 – 30% per annum.

One of our relatively frequent requests for funding involves the refinancing of existing debt, the majority of which is expensive and has very short repayment terms – crippling the businesses' efforts to generate cash flow and sustain operations. The refinancing is designed to offer conventional bank lending rates and more traditional terms and, in some cases, deferments of principal and interest. The overall objective of this particular element of the programs is to offer forms of more "Patient Capital" to allow the businesses to grow and create more jobs in minority communities, which is the very idea behind this hearing. It is pretty obvious that minority businesses tend to hire more minorities and are much more willing to hire individuals in low income communities, those who are not as well educated and those who are returning to society from our penal institutions.

Maryland is rather fortunate in that, over the course of several decades, MMG, its Governs and Maryland law makers – particularly, the Legislative Black Caucus - have strategically established financing programs that cover the majority of the most commonly needed resources for small businesses (i.e. term loans, lines of credit, letters of credit, loan guarantees, subordinated debt, equity financing and surety bonding) – *at affordable rates*. In fact, Maryland's Small Business Development Financing Authority has been recognized as a national model on several occasions for offering the most comprehensive group of financing programs to assist minority businesses by the Wall Street Journal, The National Franchise Association, the Center for Insight Center for Community Economic Development and the Center for Regional Economic Competitiveness.

The State's Video Lottery Terminal Fund is the first of its kind in the country to be funded by revenue from its gaming casinos. Maryland has a total of eight (8) fund managers. MMG's fund is referred to as the Maryland Casino Business Investment Fund ("MCBIF") – capitalized with $11 million.

Over the course of the past 5 years, these two funds managed by MMG provided 227 financings totaling $41.8 million to 175 companies. On average, 61% of the funds were provided to companies owned and operated by ethnic minorities. One might ask, what is the risk/reward profile of financing these businesses.

Well, in the case of MSBDFA, the loss ratio grew from less than 5% prior to the economic recession to nearly 11% during the recovery. This was the obvious result of businesses undercapitalized from the start not having sufficient reserves to survive the decline in business activity. On the other hand, the overall economic impact of helping such businesses grow was substantial. For example, during the 20-year period (1995-2014), the State invested $32 million of general funds into the MSBDFA programs. The lending and investment activity generated:

- $343 million in local and state tax revenues,
- $7.7 billion in commercial sales,

- $2.3 billion in personal income; and
- 3,820 full-time equivalent jobs on average per year.

The result was a net return on investment of 9.3x. This is good economic policy for both the private sector and the public sector.

My partners and I clearly agree that it is more difficult lending to many minority firms. The firms lack sufficient start-up equity capital, credit scores are lower on average and they generally have less collateral to secure the loans. But, there is all ton of underutilized talent that could be extracted to strengthen minority communities that can provide tremendous economic benefits to the municipalities and state where they are located and ultimately this great country of ours.