

Nicholas Rudolph, Baltimore Regional Director, Maryland Capital Enterprises, Inc.



Thank you Chairman Rubio, Ranking Member Cardin and members of the committee for inviting me to testify today. My name is Nick Rudolph and I am the Baltimore Regional Director for Maryland Capital Enterprises, Inc., (MCE) a small Community Development Financial Institution (CDFI) serving Maryland's Eastern Shore and Baltimore regions. Since 1998, we have provided guidance, technical assistance, classroom and virtual trainings and access to capital for entrepreneurs in Maryland. And now, thanks in part to Senator Cardin's advocacy for additional Women's Business Centers in Maryland, we also are an SBA Women's Business Center (WBC).

I am here today to share the experience of our small business clients during the COVID-19 pandemic and discuss ways future aid packages could provide the additional resources America's smallest businesses need to survive. Since we are a micro-lender working with the smallest of small businesses, most of the people we serve don't have the savings to weather a slowdown nor the time to navigate complicated instructions to receive resources and funding to help them react, recover and adapt to a potential new economy. As you are aware, the pandemic and resulting economic slowdown have hit our smallest businesses the hardest. Our clients tend to be from underserved rural and urban communities, and most are Low to Moderate Income Individuals (LMI).

Unsurprisingly, we have seen an astounding increase in requests for services because of the pandemic. Increasingly, the clients are approaching us with greater despair and fear for their future stability. Most entrepreneurs we speak to are seeking funding to help them survive while their businesses are either closed or seeing a major decrease in revenue. For instance, our WBC's requests for services has more than doubled in the last two months. Since WBCs provide services specifically to women and other underserved entrepreneurs, we have been able to ascertain what a typical client needs moving forward. In addition to emergency loans and grants, they are requesting funding to retrofit their stores for virus mitigation, rent assistance and guidance or training on surviving in a post COVID economy with a focus on opening and operating safely and resources to provide health care to owners and employees. Our clients are resilient. They clearly want and are willing to adapt but they need support and resources to do so.

I think that the experience of a woman-owned comic book and games shop in Baltimore is typical of many of our clients. The current owner of the store purchased the existing business in March 2019 and spent a year renovating, building a customer base, and growing the store's gaming business. She had successfully launched a popular summer camp gaming program, almost nightly evening events for all ages and a partnership with a historic theater across the street that cross-promoted her shop when debuting new action movies. MCE provided the initial funding to purchase and renovate the store.

When it became clear that non-essential businesses would be closed, she reached out for assistance. We assisted her with her EIDL application and provided guidance on PPP. She

discovered that her business was not eligible because it did not have payroll. Hers is a true “Mom and Pop” shop, she and her husband saved knowing that they would not be paying themselves for the first year as they expanded. This is an experience shared by many of the smallest Main Street businesses that are run by families. Because she was ineligible for PPP, she focused on EIDL and applied in early March. She received confirmation that application was accepted and under review and then heard nothing until May 19th, when she learned she received a \$40,000 loan with no grant portion because there are no employees. Once she heard she was approved and filled out the closing documents, she was immediately funded.

While awaiting a decision, she was able to negotiate with her landlord for partially reduced rent for three months. She will have to pay the difference eventually. While she is lucky to have a landlord that is somewhat flexible on rent, many businesses are not. She worked with local officials to allow for contactless delivery of comic books so there would be some revenue. She told me that she is working three times as many hours as usual for about a quarter of the revenue and that it is not sustainable financially, physically, or mentally. She is using some of her EIDL loan to help build an online platform and expand her gaming business since that is what customers are requesting. She would be able to spend more of the funds to retrofit her retail business in an increasingly contactless world, but feels she needs to hoard most of it because she fears there will be no more assistance coming and she will not be able to pay her current or back rent. When asked what micro-enterprises like hers needs to survive, she responded rent relief is key because once she is able to reopen she expects there to be less revenue because of a possible recession and the fact that people will be less comfortable shopping in person. Her rent will soon return to normal and she must make her landlord whole, without additional assistance her business will likely fail leaving her jobless and in debt. I think her story underscores the need for flexible and easily available resources for businesses with ten or fewer employees.

The EIDL loan is a particularly impactful product for these businesses because of its low interest, long terms, eased credit requirements and the fact that collateral is not required. In a perfect world, all approved applicants would receive the full grant portion regardless of number of employees. Additional products like EIDL will be key to short-term success in the coming months, as well as three to five years in the future as small businesses continue to work to stabilize themselves and adapt to a post-COVID climate. Entrepreneurs will be hurt by the likely economic downturn, which will impact their credit. Housing values may go down, eliminating what collateral they may have had. It is up to us to ensure these businesses survive.

While MCE has not serviced PPP loans, we have provided guidance and assistance to many entrepreneurs interested in applying for the funds. Again, while PPP is great product there are, understandably, some things that could be changed to make it more friendly to micro-enterprises.

It was difficult to find banks that would service the loans if the client did not have an existing lending relationship with the bank. We worked with businesses who banked with an institution for over a decade but were unable to apply because they only had accounts and not loans with the bank. Many businesses were afraid to apply because they were confused by the documentation needed for forgiveness and they were not in a position to take on additional debt. There was great confusion about what was needed to apply and who was eligible and, at times, even we as professional lenders with decades of experience were unsure of the answers. They regularly

express concerns with the timeframe to spend the funds, fearing that they would not be able to open in time to use the funds. Those who have received funds fear that incorrectly completing one form will result in them being denied forgiveness which would devastate the business. In fact, two clients we worked with decided to return the funds out of this fear. Perhaps outside of the box ideas like making the first \$50,000 of any PPP loan a grant or accepting signed assurances of compliance as proof for forgiveness from smaller borrowers would give these “Mom and Pop” businesses the confidence to take advantage of this amazing program. Allowing them three to six months from the date they reopen would mitigate concern as well. For some of our businesses, like the comic book store I discussed with you, PPP was not an option because they take owners draws instead of paying themselves as W-2 or 1099 employees and even if they were allowed, the eligible amount would too small to be worth the time and effort. Which is why it is so important that both the PPP and EIDL are available.

Funding the Small Business Relief Program that funnels funding to states is key to ensuring that all small businesses have access to the resources they require because different areas have unique needs that are better met with localized support. Additionally, funding for Technical Assistance for CDFIs and other service providers will be critical to overcoming challenges because of an increased need for services from existing businesses and entrepreneurs who see a niche they can fill. One thing that is imperative to allow CDFIs to focus on our work directly with clients is ensuring that no additional risk is taken on by CDFIs servicing any loans from future small business assistance packages because we expect more businesses will default due to a slowing economy.

It is our small business entrepreneurs who will provide the innovative solutions necessary for all of us to succeed in a post COVID-19 economy and reality, and we need you to provide us with tools to guide and support them through this once in a lifetime challenge. The hard truth is that there is no easy, perfect or one size fits all solution to this. One thing is for certain, it will be a significant expense but there is no way America can afford to lose the small business community that is so vital to our economy, local identities and American way of life. The resources provided by the CARES Acts and guidance, communication and assistance of the SBA have been instrumental in allowing us to serve our clients. While the roll out has not been perfect, it is more than understandable because of need to get the resources into the hands of small businesses quickly was so great that full policies and procedures could not be created first. We are more than grateful for the hard work that you and the SBA are doing in these scary, confusing, and uncertain times. We look forward to working with you and SBA in the future to continue supporting small business.

I would like to thank you for the opportunity to share my experiences with your committee. It is an honor. I will do my best to respond to any questions that you have.

Thank you,

Nick Rudolph, Baltimore Regional Director
Maryland Capital Enterprises, Inc.
212 W. Main Street, Suite 400
Salisbury, MD 21801