

**TESTIMONY PRESENTED TO THE COMMERCE COMMITTEE**

February 27, 2020

Kenneth Smith, Executive Vice Chair  
Paul Flynn, Jr. - President and CEO  
BDC Capital Corporation

**House Bill 5007: An Act Concerning The Small Business Express Program**

Good afternoon Senator Hartley, Representative Simmons, Senator Martin, Representative Cummings, and members of the Commerce Committee. My name is Kenneth Smith and I am currently the Vice Chair of BDC Capital Corporation after having served 36 years as President and CEO. I am also joined by Mr. Paul Flynn, Jr., current President and CEO. We appreciate this opportunity to submit testimony in support of House Bill 5007: An Act Concerning the Small Business Express Program.

BDC Capital Corporation (BDC) is a small business lending organization that lends exclusively to small businesses located in New England. BDC has been engaged in small business lending since 1954 and, along with its affiliated SBA lender, New England Certified Development Corp. (NECDC), has funded more than 10,000 small businesses. BDC has been actively lending and investing in Connecticut companies for the past 15 years through our office located at 20 Church Street, Hartford. BDC has invested in several hundred Connecticut businesses over this period of time and NECDC is presently the largest United States Small Business (SBA) 504 lender within Connecticut. BDC offers small businesses working capital lines of credit, equipment and real estate loans, SBA loans, and mezzanine and private equity investment.

As part of its mission to support the growth of small and Main Street businesses throughout New England, BDC Capital has created and currently manages two state Small Business Capital Access programs (CAP); one in Massachusetts and one in Rhode Island. The Massachusetts CAP program began in 1993 and has funded 6,542 small businesses including 300 companies in 2019 alone. BDC has documented 49,828 jobs created or retained over this period of time. More than \$200 million in payroll taxes have been generated for the Commonwealth of Massachusetts from this job creation activity over the past 26 years in return for several tiers of state investment in CAP totaling \$15.5 million over this same period of time. There are 75 participating bank lenders in the MassCAP program.

The Rhode Island Capital Access Program was created in 2017. In the first three years of RICAP 20 banks and credit unions have signed up as participating lenders and 53 small businesses have received funding to start or expand a business. The state of Rhode Island has been pleased with the performance of the CAP program and has just renewed the program for an additional three years.

CAP programs provide many benefits. CAP programs, when properly implemented in participation with local banks, fund job creating Main Street businesses and deliver critical capital to businesses that would otherwise, not have access to capital. CAP programs provide exceptional leverage of private sector funds to public sector funds, often leveraging private funds in excess of 20 to 1, and do so with minimal loan loss exposure. The CAP programs under management of BDC have realized historical loan losses of 4%.

House Bill 5007, as proposed, would redesign and revitalize the state of Connecticut CAB program under a similar structure to that used in the CAP programs in Massachusetts and RI. By embracing collaboration with the existing banking industry and better utilizing the local distribution network of local bank branches within the communities, we believe that the Connecticut CAB program will have significant impacts in encouraging start up and expansion of local Main Street businesses, creating jobs, and generating appropriate returns on investment for the state. Our experience with this program has also shown that start-ups, women and minority owned businesses, and expansion of businesses located in higher unemployment communities are also positively impacted. We are including several sheets of relevant statistics regarding the exceptional performance of the Massachusetts CAP program.

We strongly encourage passage of this Bill to support small business growth within Connecticut.

Thank you for allowing us to submit this testimony. We are both available, either in person or by phone or email, to answer any questions that you may have or to provide any additional information that you may want.

## **The Massachusetts Capital Access Program**

**\$15.5 Million Investment by the Commonwealth  
Has Created:**

**The top-performing community loan program in the United States  
6,542 small business loans in Massachusetts  
49,828 jobs created or retained in Massachusetts  
Over \$200 million in incremental payroll taxes returned to the State  
Average loan size per recipient \$49,593**

With 75 participating banks and 6,542 small businesses funded, the impact that this program has had on business formation and job creation within the Commonwealth cannot be overstated. Over the past 26 years, \$15.5 million of state funding has been leveraged into \$422 million of loans to these 6,542 companies. These companies have returned more than \$200 million in incremental payroll taxes to the Commonwealth for its investment making the Massachusetts CAP program the most successful community loan program in the country.

CAP is also critical to the issue of financing inner city businesses with over 1,500 loans to small businesses located in Massachusetts Gateway communities. No other loan or investment program has created more inner city jobs for community businesses than CAP.

While the 25 to 1 private sector funding is impressive, the story of over 6,000 small businesses receiving funding that they would not have received otherwise is even more impressive. The loans are made to true “neighborhood” businesses and are spread throughout the Commonwealth. \$56 million of all CAP loans have been granted to start ups and an additional \$33 million to companies with revenues of less than \$100,000. The average loan size is \$49,593 with loans as small as \$1,000. CAP loans have created or retained 49,828 jobs for the Commonwealth.

This program has been vigorously supported by the Smaller Business Association of New England (SBANE), the Associated Industries of Massachusetts (AIM), the Massachusetts Bankers Association and many local area Chambers of Commerce. CAP has been written up in the Boston Globe, the Boston Herald and the Wall Street Journal as a model for other states to follow. CAP has been the most successful bi-partisan effort ever formulated to assist neighborhood businesses in creating jobs in Massachusetts.

CAP Program Activity Between 01/01/1993 and 02/18/2020

PERIOD LOANS BY INDUSTRY:

INDUSTRY TYPE	NUMBER OF LOANS	DOLLAR AMOUNT	PERCENT OF DOLLARS
Agribusiness	329	\$15,617,498	3.70
Mining/Construction	587	\$36,202,878	8.57
Manufacturing	595	\$45,853,353	10.85
Transportation	407	\$34,110,125	8.07
Wholesale	309	\$23,928,681	5.66
Retail	1,421	\$88,214,027	20.87
Finance/Real Estate	207	\$16,650,142	3.94
Service/Misc.	2,394	148,938,797	35.24
Unknown	293	\$13,075,603	3.09
TOTALS:	6,542	422,591,104	100.00

BREAKDOWN BY LOAN SIZE IN PERIOD:

LOAN SIZE RANGE	NUMBER OF LOANS	DOLLAR AMOUNT	PERCENT OF DOLLARS
\$0 - \$24,999	2,136	\$28,403,764	6.72
\$25,000 - \$49,999	1,600	\$50,669,784	11.99
\$50,000 - \$99,999	1,478	\$91,857,069	21.74
\$100,000 - \$249,999	1,039	147,111,235	34.81
\$250,000 - \$499,999	236	\$74,680,653	17.67
\$500,000 and above	53	\$29,868,599	7.07
TOTALS:	6,542	422,591,104	100.00

BREAKDOWN BY SALES OF BORROWER IN PERIOD:

SALES RANGE	NUMBER OF LOANS	DOLLAR AMOUNT	PERCENT OF DOLLARS
\$0 [Start-up]	908	\$55,955,459	13.24
Less than \$100,000	966	\$32,937,442	7.79
\$100,000 - \$249,999	1,236	\$49,331,100	11.67
\$250,000 - \$499,999	1,187	\$60,119,254	14.23
\$500,000 - \$1,000,000	1,049	\$78,218,398	18.51
Over \$1,000,000	1,196	146,029,451	34.56
TOTALS:	6,542	422,591,104	100.00

RANGE	NUMBER OF LOANS	DOLLAR AMOUNT	PERCENT OF DOLLARS
0 - 9	5,279	285,032,641	67.45
10 - 24	888	\$91,448,186	21.64
25 - 49	210	\$26,178,532	6.19
50 - 99	118	\$9,574,172	2.27
100 - 249	42	\$9,442,573	2.23
250 +	5	\$915,000	0.22
TOTALS:	6,542	422,591,104	100.00

TOP BANKS BY DOLLAR AMOUNT OF LOANS ENROLLED DURING PERIOD:

BANK NAME	NUMBER OF LOANS	AMOUNT ENROLLED
Bank of America	905	\$47,567,977
Rockland Trust Company	398	\$24,036,188
Santander	297	\$23,689,142
TD Banknorth, N.A.	484	\$20,208,248
Citizens Bank	370	\$19,863,255

PERIOD PERFORMANCE DATA: 01/01/1993 THROUGH 02/18/2020

Total amount of CAP loans:	\$422,591,103.99
Amount of loans enrolled:	\$324,269,556.41
Amount of program reserve deposits:	\$12,623,305.85
Amount of reserve paid by banks/borrowers:	\$10,286,515.63
Accrued interest on reserves:	\$407,850.14
Less net claims paid:	(14,109,263.24)
Less interest w/d to defer administrative costs:	(\$360,415.23)
Net change in total reserves during period:	\$8,847,993.15
Smallest amount enrolled:	\$1,000.00
Largest amount enrolled:	\$500,000.00
Average amount enrolled:	\$49,592.99
Jobs created by CAP loans:	14,773
Jobs retained by CAP loans:	35,055
Agency deposit per job created/retained:	\$854
Loan-to-program-deposit ratio:	\$25.70: \$1
Wtd. avg. interest rate of loans:	7.69%
EZ/EC borrowers:	5.37%
EZ/EC loans:	5.32%
Lines of credit:	38.92%
Term loans:	61.08%