STATEMENT FOR THE RECORD BEFORE THE SENATE BANK AND FINANCE COMMITTEE ON SB 33: COMMERCIAL FINANCING DISCLOSURES

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Bianca Blomquist
California Policy Director, Small Business Majority

Thank you Chairwoman Limón, Vice Chairman Niello and Members of the Committee:

My name is Bianca Blomquist and I'm the California Policy Director for Small Business Majority, a small business organization with multiple offices throughout California that empowers America's entrepreneurs to build a thriving and equitable economy. Additionally, we are founding members of the Responsible Business Lending Coalition (RBLC), a network of non-profit and for-profit lenders, investors, and small business advocates that share a commitment to innovation in small business lending and serious concerns about the rise of irresponsible small business lending. Today, I'm here to share our support for SB 33 to ensure small businesses continue to have the transparency they need when shopping for financing products.

Access to responsible capital is a top concern for small business owners. A poll by Small Business Majority found an overwhelming majority of small businesses in California (71%) felt that while online small business lending has opened up new sources of capital for small business owners, these lenders should be regulated to ensure small business borrowers are protected from predatory practices. What's more, 8 in 10 California small business owners reported that they are in favor of regulating online lenders to ensure interest rates and fees are clearly disclosed to borrowers.

When the state legislature passed SB 1235, California became the first state in the nation to require commercial finance companies to provide truth-in-lending disclosures to small business borrowers, allowing borrowers to more easily comparison shop and understand the true cost of the money they are borrowing. By eliminating the sunset date for SB 1235, SB 33 will allow small business owners to continue to receive standardized loan information. The bill protects California's economy and supports responsible innovation in the commercial financing marketplace.

Additionally, the passage of SB 33 is yet another opportunity for California to set the standard for the rest of the country to follow. Since the passage of SB 1235, New York has passed a similar bill and the 117th Congress introduced a federal truth-in-lending bill.

Furthermore, the passage of SB 33 would protect SB 1235's most critical protection: disclosure of the Annual Percentage Rate (APR). APR is the only pricing metric that includes all the rates and fees over a common unit of time. It is the metric that borrowers know and trust because it is already mandated for consumer loans. Without this metric, small business borrowers would not be able to make a guided decision about the effects of a financial product on their business and their livelihood, nor will they be able to compare the cost of different types of financing.

Extending these disclosures is important because small business owners, especially first-time entrepreneurs, have little access to traditional bank loans. Many of these small business owners have a limited understanding of financial practices. Many do not understand interest rates, prepayment penalties, or other complicated financing terms of the options that are available today. Moreover, many of the terms are not clearly written or proposed to the small business owner in a timely manner. A deceptive financing product can lead a small business to financial ruin, or even worse, closure of the business.

One particular story comes to mind. Darren and Natasha Preston of Malibu's Burgers in Oakland became small business owners in 2019. By early 2020, the COVID-19 pandemic erupted. Darren and Natasha struggled to access capital through traditional financial institutions, and government backed programs effectively left them behind. Fast-forward to last week, the entrepreneurs filed for Chapter 11 bankruptcy, alleging they fell prey to a "bad loan."

They matched with an alternative online lender that provided a financing product with opaque and changing terms, trapping them in a cycle of high-cost debt. A year and $30,000 in interest later, their balance was higher than the cost of their original loan of $85,000, which ultimately became unfeasible for them to repay. This lack of transparency in small business loans is how countless other business owners like Darren have been exploited by deceptive lenders.

This is why the Responsible Business Lending Coalition supported SB 1235, which implemented standards to ensure that lenders clearly communicate the true cost of a small business' financing. These standards are needed because the federal Truth in Lending Act protects consumers, but not small businesses. The Federal Reserve, U.S. Treasury Department, Office of the Comptroller of the Currency (OCC), and others have highlighted that small businesses' lack of protections is a gap in the regulatory framework that has led to predatory practices. Some small business financing products have interest rates higher than 50%, or even 350%, without these rates being disclosed clearly to the borrower. Accion Opportunity Fund's study found California small business owners pay, on average, nearly double what they can afford.

SB 33 would ensure that small business borrowers like Darren are protected from predatory lending practices by providing transparency that small business owners deserve. Continuing these responsible business practices is an opportunity for the legislature to show that it can govern on a bipartisan basis to solve real people's problems. This bill will support small businesses in their quest for access to capital, growth and success, which is especially important in our post-COVID world.

For these reasons, Small Business Majority urges your yes vote on SB 33.

Sincerely,

Bianca Blomquist
California Policy Director
Small Business Majority