

**STATEMENT FOR THE RECORD
BEFORE THE ILLINOIS HOUSE FINANCIAL INSTITUTIONS AND LICENSING
COMMITTEE ON HOUSE BILL 3064: TRUTH IN LENDING ACT**

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Owner, Not Just Cookies

Dear Chair Croke, Vice-Chair Avelar and members of the committee.

Thank you for allowing me to share comments with you about the detrimental impact predatory lending has on small businesses.

I filed for Chapter 7 bankruptcy in 2020. With business down due to COVID-19 and my cash reserves depleted, I was left with no other option. While the pandemic may have been the nail in the coffin, it was not what set my business up to fail. Several years ago, I made a financial decision that's had long-lasting impacts on my business and put me in a difficult position well before the pandemic first made headlines—all because it's legal for small business lenders to fail to disclose important costs and terms.

At the age of 13, I began selling cookies to family and friends. At the age of 20, I opened a storefront in Chicago, was operating a kiosk in the heart of the city, and was managing multiple contracts with grocery stores and cafeterias. It was a dream come true, but it quickly came crashing down.

Like any ambitious entrepreneur, I was determined to keep growth going and I sought financing to reinvest in my business. I needed capital to make operational upgrades and attract new clients.

Cash-strapped, I took two financing products totaling \$40,000 from a merchant cash advance company. I thought I had full information about the financing I was taking and that the company was trusted. What I didn't know, however, was what was happening behind the scenes.

After the Great Recession, traditional small business lending substantially dropped. Because many banks view small businesses as riskier borrowers, in recent years lenders have increased credit and collateral requirements on small business loans. These requirements favor larger businesses, making it nearly impossible for true Main Street businesses like mine to secure a traditional loan. This has disproportionately impacted women and minority-owned businesses, and respectively they receive just 4% and 5% of conventional loans.

Seeking to capitalize on this void and to turn a quick buck, alternative lenders sprouted up by the dozens. These lenders offer the promise of fast cash, baiting borrowers into agreeing to a financing product before disclosing the true price and terms. Some predatory lenders disguise interest rates as high as 400% APR in murky and confusing financial jargon.

Unlike payday loans for consumers, online and other alternative small business financing companies operate in an almost entirely unregulated market where it is legal for bad actors to disguise their fees or fail to provide that information altogether.

There is a common misconception that business owners are experts in all areas of running a business. However, that is not always the case. Unlike large corporations, small businesses often do not have the resources to hire accounting firms or seek financial advice from consultants.

When I took out my merchant cash advances, I was a young entrepreneur on a quest to make my business as successful as possible. The company did not disclose how aggressive the repayment schedule would be, and before I knew it, I was completely broke. In normal times the impact of a predatory loan is hard enough to manage, but add in the pandemic, and I was left with no choice but to file for bankruptcy.

With millions of small businesses in need of a lifeline, predatory lending has the potential to crush America's small business community, and it has highlighted the underlying issues that have created barriers for small businesses, particularly businesses owned by people of color.

As we speak, some bad actors are circling struggling small businesses waiting to pounce and take them for all they have. Small businesses are still facing challenges due to inflation, supply chain disruptions and more, making it likely that business owners will be left with no choice but to turn to alternative lenders to stay afloat.

This is why I urge you to act now to rein in alternative lenders to ensure entrepreneurs in our state don't lose their businesses and their dreams.

Thank you for the opportunity to share my story with you.