



March 27, 2019

Assemblymember Monique Limón
State Capitol
P.O. Box 942849
Sacramento, CA 94249

RE: Support AB 539 (Limón) – Fair Access to Credit Act

Dear Assemblymember Limón,

As a representative of the 28 million small businesses in America and the more than 3.5 million in California, Small Business Majority writes today in support of AB 539, the Fair Access to Credit Act. This bill would eliminate the practice of charging unaffordable interest rates on consumer loans between \$2,500 and \$10,000, which would greatly benefit entrepreneurs and small businesses in California that rely on consumer loans to grow their businesses.

Small Business Majority is a national small business organization with multiple offices throughout California, founded and run by small business owners to ensure America's entrepreneurs are a key part of a thriving and inclusive economy. We actively engage small business owners and policymakers in support of solutions that promote small business growth and drive a strong economy. A key component of our work involves outreach and education to small business owners on a range of small business issues, including healthcare, retirement security, access to responsible capital and more.

In today's economy, entrepreneurs face tremendous challenges when it comes to securing capital to launch or expand their businesses. Indeed, Small Business Majority's polling has found that 90% of small business owners agree that the availability of small business loans is a problem. Additionally, another poll found 82% of California small business owners feel that high interest, high fee products being offered to small businesses are a problem. Too many entrepreneurs are struggling to access the capital they need to start and expand their business. When they are able to find financing, they need it to be safely and responsibly administered.

Due to a lack of access to traditional financing, many small business owners lean on personal loans and credit to finance necessary costs for their businesses. Personal consumer loans can also help small business owners cover household costs so they have more funds available to invest directly in their businesses.

This is why state lawmakers must address exorbitant interest rates on consumer loans. The lack of a rate cap on loans between \$2,500 and \$10,000 has resulted in a recent explosion of loans with annual interest rates in the range of 100% to 225% and above. According to the California Department of Business Oversight (DBO), the market for triple-digit interest rate loans went from nearly nonexistent ten years ago to having an annual loan volume of \$1.1 billion in 2017.

Based on data provided by lenders to the DBO, approximately one-third of these loans end up in default. When a borrower defaults on a loan, the lender can "charge-off" the loan, which provides the lender with a federal and state income tax write-off. But the debt does not simply go away. Lenders sell charged-off loans to collection agencies that continue to try and collect on the loan principal and accrued interest. Borrowers who default on a loan face harmful consequences, including damaged credit, lawsuits and even bankruptcy.

AB 539 will protect small business borrowers from the predatory practices of triple-digit lenders. This bill would enact a reasonable interest rate cap on installment loans that allow lenders to make a fair return and give borrowers a fair chance to repay the loan. The proposed interest rate cap will

incentivize lenders to conduct reasonable ability-to-repay underwriting which will significantly decrease the rate of defaults and negative consequences for small business borrowers.

We support any legislation that will help entrepreneurs thrive; AB 539 will do just that.

Sincerely,

A handwritten signature in cursive script, appearing to read "Mark Herbert".

Mark Herbert, California Director
Small Business Majority