

WRITTEN STATEMENT
U.S. HOUSE COMMITTEE ON SMALL BUSINESS
HEARING ON
TRANSPARENCY IN SMALL BUSINESS LENDING
SEPTEMBER 9, 2020
JOHNATHON BUSH, NOT JUST COOKIES
CHICAGO, ILLINOIS

Dear Chairwoman Velázquez, Ranking Member Chabot 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, especially in light of challenges stemming from the COVID-19 pandemic.

I recently filed for Chapter 7 bankruptcy. 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. Two years, ago I made a financial decision that's had long-lasting impacts on my business and put me in a precarious position well before the pandemic first made headlines—all because it's legal for small business lenders to disclose important costs and loan terms.

At the age of 13, I began by selling cookies to family and friends. By 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 loans 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 to secure a traditional loan. This has disproportionately impacted women and minority-owned businesses, and respectively they receive just over 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 loan before disclosing the true price and terms. Some predatory lenders disguise interest rates as high as 400% APR in murky, and often confusing, financial jargon.

As you know, 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 loans, I was a young entrepreneur on a quest to make my business as successful as possible, only armed with the information at hand.

The company had not disclosed 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 plagued small businesses, particularly businesses owned by people of color, for years.

As we speak, loan sharks are circling struggling small businesses waiting to pounce and take them for all they have. The current gap in federal funding could very well be the opening that they need.

It is expected that more than [one in four small businesses will not survive the next three months without more help](#), making it all the more 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, as outlined in the Small Business Lending Disclosure and Broker Regulation Act, to ensure more entrepreneurs don't lose their businesses during this critical time.

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

Jonathan Bush, owner
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