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**TESTIMONY BEFORE THE  
CALIFORNIA SENATE COMMITTEE ON BANKING AND FINANCIAL INSTITUTIONS  
IN SUPPORT OF SB 1235**

**April 18, 2018**

**John Arensmeyer**

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Thank you, Chair Bradford, Vice Chair Vidak and members of the Senate Committee on Banking and Financial Institutions:

As a representative of the more than 3.8 million small businesses in California, Small Business Majority is pleased to offer testimony today in support of SB 1235, legislation that will ensure all of California's small businesses and self-employed entrepreneurs have access to responsible sources of lending.

Small Business Majority is a California-based national small business organization with three offices in the state and 7,000 business owners in our California network. We are run by small business owners to focus on solving the biggest problems facing small businesses today. We actively engage small business owners and policymakers in support of public policy solutions, and deliver information and resources to entrepreneurs that promote small business growth and drive a thriving and inclusive job-creating economy. A key component of our work involves outreach and education to small business owners on a range of issues, including access to responsible capital, healthcare, retirement security and more.

We are also founding members of the Responsible Business Lending Coalition (RBLC), a network of for-profit and non-profit lenders, brokers and small business advocates committed to making credit more accessible and protecting small business borrowers from predatory and irresponsible lending practices. Through the RBLC, Small Business Majority has worked to develop the Small Business Borrowers' Bill of Rights, which identifies six fundamental rights we believe all small business borrowers deserve, along with specific practices lenders should abide by in order to uphold those rights. This includes the rights to transparent terms and pricing, non-abusive products, responsible underwriting, fair treatment from brokers, inclusive credit access and fair collection practices.

Through our work with the RBLC, our scientific research and our work on the ground educating and listening to small business owners about their financing needs and options through our [Entrepreneurship Program](#), we know that access to capital is a top concern for small business owners. Indeed, Small Business Majority's [polling has found that 90%](#) of small business owners agree that the availability of financing is a problem. Further, according to [the 2016 Small Business Credit Survey](#) from the Federal Reserve Bank of New York, 61% of employer small businesses faced financial challenges in the last year, with credit availability or securing funds for expansion ranking as the top financial challenge. Additionally, the California Reinvestment Coalition found Small Business Administration-backed lending [fell by more than 60%](#) between 2007 and 2013. Moreover, access to capital disproportionately affects women entrepreneurs and minority business owners, who receive just [4.4% and 5.5% of conventional small business](#) loans respectively. Given the tremendous disparity between the need and the supply of financing options, small business owners are particularly vulnerable to predatory loan products.

We welcome the emergence of online lending and other alternative types of financing as new opportunities to fill this gap. But, most of these new types of financing are almost completely unregulated. Some financing institutions are doing their part to disclose their terms and rates, but not all lenders are playing by these rules of the road and are offering desperate entrepreneurs loans with predatory terms. Another recent poll by Small Business Majority found that predatory lending is a particular concern for California small business owners. Indeed, 71% feel 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, an overwhelming majority of 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. This support makes sense in light of the fact that 82% of small business owners feel that high interest, high fee products being offered to small businesses are a problem.

SB 1235 would protect small business owners from predatory practices by dramatically increasing transparency for small business owners. Specifically, the proposed legislation applies the same rules to all types of products: commercial loans, lines of credit, merchant cash advances and receivables/factoring. Crucial loan characteristics such as total payments, total dollar cost of financing, APR or estimated APR and pre-payment policies are among the terms that would have to be disclosed at the time that a loan offer is made. These requirements will give small businesses the ability to compare products and make informed borrowing decisions, while protecting them from unsafe or predatory lenders.

In offering our support for SB 1235, we endorse all the committee staff's recommended amendments. We recommend requiring the disclosure of APR or estimated APR as APR is the best way to enable borrowers to make an "apples-to-apples" comparison among loan products. But, we support the staff's recommendation to clarify the language governing the calculation of APR to ensure a simpler process that can apply across all types of loan products.

In conclusion, alternative lending products offer exciting new financing opportunities for small businesses. But, these products cannot continue to exist in an unregulated space, leaving small business owners open to predatory practices that can cripple their business and undermine their financial security. SB 1235 will extend important protections to small businesses by requiring financiers provide transparent lending terms before a loan is disbursed. Small businesses play a critical role in California's economy, and policymakers must take action to ensure that bad actors do not hinder small business growth through predatory lending practices.

Thank you for the opportunity to comment on this important issue. I would be happy to answer any questions.