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**STATEMENT FOR THE RECORD**  
**BEFORE THE MARYLAND SENATE FINANCE COMMITTEE ON THE**  
**SB 0825 “CONSUMER CREDIT- COMMERCIAL FINANCING TRANSACTIONS”**  
**BILL**  
**MARCH 9, 2022**  
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**GOVERNMENT AFFAIRS DIRECTOR, SMALL BUSINESS MAJORITY**

Thank you Chairwoman Kelley, Vice Chairman Feldman, and members of the committee.

My name is Awesta Sarkash and I am the Government Affairs Director for Small Business Majority, a national small business organization that empowers America’s diverse entrepreneurs to build a thriving and equitable economy. Thank you for the opportunity to discuss SB 0825, which would enact critical protections for small business borrowers that are falling prey to predatory lending practices.

This legislation replicates New York’s successful Small Business Truth in Lending law that includes commonsense protections for small business borrowers. This is vital because SB 0825 would ensure safeguards to protect small business owners in Maryland from unclear and opaque loan terms, allowing them to make an apples-to-apples comparison when searching for capital. The bill is applicable to financing products below \$2.5 million because smaller, Main Street businesses are the ones being misled by the lack of transparency today. It provides transparency about the lending product, tells the online lender how to calculate and what to disclose to the borrower.

This legislation is needed because small businesses in Maryland could unknowingly agree to higher cost loan terms because predatory lenders can legally offer opaque terms through deceptive practices. A common reality for small businesses is thinking you’re paying one price for your loan, and instead realizing, sometimes too late, that your actual annual percentage rate or “APR,” is in fact in the triple digits. Sometimes borrowers discover that there are additional costs associated with their loan that that they were not made aware of.

The Federal Reserve found in at least four research studies that small businesses are misled into accepting higher-cost financing by pricing metrics commonly used today. In fact, that [research](#) indicated that minority-owned firms more frequently applied for “potentially higher-cost and less-transparent credit products,” specifically merchant cash advance and factoring products. This practice reinforces existing access to capital disparities and diminishes entrepreneurship. Small businesses recognize the need for this type of protection, which is why [75% of small businesses](#) support the type of legislation we’re discussing today.

We must pass SB 0825 because APR is the only metric that enables an apples-to-apples comparison of products of different types, amounts, and lengths. Despite what you might hear today, this bill will not outlaw any products or restrict access to capital in any way. Simply requiring price transparency for Maryland’s small businesses is a benefit to the small business ecosystem.

You may also hear from companies that offer merchant cash advances that they can’t estimate APRs and disclose them. That is incorrect. Some merchant cash advance providers already disclose APR. The rest will soon be required to by similar truth-in-lending laws in California and New York. They should provide the same transparency in the state of Maryland.

And some companies may argue that APR is not a helpful disclosure and that quoting the cost in dollars should be enough. Why isn’t it enough to tell you the fee will be \$10,000? Because this doesn’t

allow a small business to make cost comparisons between financing of different amounts and lengths. To illustrate: Consider renting a house for \$10,000. Is that a good deal? You need to know how long you'll get to use the house. Paying \$10,000 for six months is more expensive than paying the same dollar amount for 5 years. What's the all-in cost per year? That's what the APR tells you.

I urge you to advance this bill immediately. Maryland's small businesses are depending on it.