



May 15, 2023

Representative Matt Ritter
Speaker of the House of Representatives
State of Connecticut
300 Capitol Avenue - Room 4106 LOB
Hartford, CT 06106

Representative Vincent Candelora
House Minority Leader
State of Connecticut
300 Capitol Avenue-Room 4200 LOB
Hartford, CT 06106

Representative Jason Rojas
Majority Leader
State of Connecticut
300 Capitol Avenue-Room 4100
Hartford, CT 06106

RE: Opposition to *SB 1032, as Amended*

Dear Speaker Ritter, Majority Leader Rojas, and Minority Leader Candelora:

The Responsible Business Lending Coalition (RBLC) writes today in opposition to the amended version of *SB1032* which deviates dramatically from the original bill introduced by Chair Jason Doucette and Ranking Member Tom Delnicki of the Joint Banking Committee. The RBLC endorsed and supported the original bill because it would have established meaningful transparency standards for Connecticut small business owners seeking capital by requiring all non-bank financing providers to clearly disclose the pricing and terms of any financing offers made to an entrepreneur. Unfortunately, the amended version of *SB 1032* no longer requires the disclosure of the annual percentage rate (APR) or Estimated APR. The amended bill would no longer apply to all financing providers but instead singles out the merchant cash advance (MCA) product category. The bill as amended does nothing to advance protections or transparency for Connecticut small business owners and we urge members of the Connecticut General Assembly to oppose the compromised bill.

The RBLC is a network that includes nonprofit and for-profit finance providers, CDFIs, private investors, small business advocates, and organizations of small business owners that believe entrepreneurs across the nation deserve access to responsible, affordable capital that will help their businesses thrive, not force them out of business. In 2015, the RBLC brought the need for small business transparency standards to national attention by publishing the [Small Business Borrowers' Bill of Rights](#), the first cross-sector consensus on standards of responsible lending to small businesses. These standards have been endorsed by more than 100 small business lenders, brokers, lead generators, and advocacy organizations.

We commend you for raising the critical issue of small business financing transparency, which is a critical provision of the Small Business Borrowers' Bill of Rights. Unfortunately, as currently written, *SB 1032* would set back disclosure efforts rather than delivering the transparency that businesses need when seeking credit. With APR now removed, the remaining disclosure elements in the bill are generally already being disclosed. We urge you to amend the bill immediately so that small businesses in Connecticut can get the protections they deserve.

Requiring all providers of commercial financing to disclose the APR or estimated APR is critical to ensuring that a Connecticut small business owner can compare different financing products available to them to make an informed decision. APR is a time-tested rate that people know and expect because it is the legally required standard for consumer products such as mortgages, auto loans, credit cards, and short-term personal loans.

The Responsible Business Lending Coalition supported *SB1032* as originally introduced by the Joint Banking Committee. The original bill would have ensured transparency to Connecticut small business financing through the disclosure of APR and estimated APR for all commercial financing products and providers. However, in its current

form, *SB1032* would only codify the harmful practices conducted by MCAs that are draining the wealth and job opportunities from Connecticut. As amended, *SB1032* would allow financing providers to continue offering the same misleading information to business owners, and even worse, they would be able to do so with institutionalized support from the State of Connecticut.

Ensuring that Connecticut business owners can make accurate comparisons in the commercial financing marketplace would support a healthier financing market where providers are rewarded for offering high-quality, affordable products rather than misleading business owners to take on harmful debt. Under current law, providers offering commercial credit can legally offer products with APRs as high as 350% or more, without ever disclosing these rates to a borrower.¹ According to a Federal Reserve report, without standardized disclosures that include APR, small businesses are more likely to choose a higher-cost product.² Further, when reviewing information commonly offered by non-bank commercial finance providers about cost, business owners perceived the use of terminology with which they were less familiar (for example, “simple interest” or “factor rate” versus APR) as intended to “hide” or “conceal” true costs.³ When asked what metrics were most important in understanding the cost of a financing product, business owners most often cited APR, repayment amount, frequency of payments, and prepayment penalties.⁴

The more than 350,000 small businesses in Connecticut enrich their neighborhoods and employ nearly half of the state’s private sector workforce. As currently written, the bill will fail to empower small business owners with clear information about the rates and terms of their financing, forcing more Connecticut businesses to close their doors by trapping them in harmful cycles of debt.

While we oppose the bill in its current form, we appreciate the work lawmakers have invested in trying to develop a policy solution that protects Connecticut small businesses and promotes a transparent and competitive marketplace. We strongly encourage members of the Connecticut General Assembly to hold off on further action on *SB1032* in this session and to re-engage Connecticut small businesses, small business advocates, lenders, and other stakeholders including the RBLC to craft a bill that promises to advance and protect and sustain small businesses in the state.

Sincerely,



Cc: Representative Jason Doucette, Co-Chair, Banking Committee
Representative Tom Delnicki, Ranking Member, Banking Committee

¹ Accion Opportunity Fund. Unaffordable and Unsustainable: The New Business Lending on Main Street. May 2016. https://aofund.org/app/uploads/2021/03/Unaffordable-and-Unsustainable-The-New-Business-Lending-on-Main-Street_Opportunity-Fund-Research-Report_May-2016.pdf

² Federal Reserve Board. Uncertain Terms: What Small Business Borrowers Find When Browsing Online Lender Websites. December 2019 <https://www.federalreserve.gov/publications/files/what-small-business-borrowers-find-when-browsing-online-lender-websites.pdf>

³ Federal Reserve Board. Browsing to Borrow: “Mom & Pop” Small Business Perspectives on Online Lenders. June 2018. <https://www.federalreserve.gov/publications/files/2018-small-business-lending.pdf>

⁴ Ibid.