



February 16, 2024

State of Maryland
C. T. Wilson (Chair)
House Economic Matters Committee
House Office Building, Room 231
6 Bladen St., Annapolis, Maryland 21401

RE: Support for HB574, Commercial Financing – Small Business Truth in Lending Act

Dear Chair Wilson, Vice Chair Crosby, and members of the House Economic Matters Committee:

The undersigned organizations representing Maryland's more than 615,000 small business owners and responsible finance providers that do business with them write in support of HB574, Commercial Financing – Small Business Truth in Lending Act, as introduced. This bill aims to bring transparency to the small business lending marketplace through standardized disclosures, particularly disclosure of the annual percentage rate (APR). When small business owners in Maryland are empowered with clear information about their financing options, they have the agency to choose the best product for their needs.

Every entrepreneur deserves access to responsible, affordable capital that will help their business thrive, not force them out of business. Because of loopholes in current laws, some financing providers are misleading business owners to take on harmful debt with annual percentage rates (APRs) of as high as 358%, without these rates ever being disclosed to them.¹ We support legislation like SB509/HB574 that requires financing providers to disclose clear, consistent information about the price and terms of all business financing products, including APR, so business owners can accurately compare products and choose the best option for their business.

Business owners have come to expect standard information for financing products, including APR, since this information has been required for consumer products for more than 50 years under the federal Truth in Lending Act. Research from the Federal Reserve suggests that in the absence of required disclosures, business owners often confuse commonly used terms such as "simple interest" and "factor rate" with an APR and mistakenly select costlier products based on this information.² APR is the only pricing metric that enables true comparison between

¹ Accion Opportunity Fund. Unaffordable and Unsustainable: The New Business Lending. 2016
<https://aofund.org/news/unaffordable-and-unsustainable-new-business-lending/>

² . Federal Reserve Bank of Cleveland, "Uncertain Terms: What Small Business Borrowers Find When Browsing Online Lender Websites," December 2019
<https://www.clevelandfed.org/publications/cd-reports/2019/sr-20191219-uncertain-terms>



products, regardless of the amount, term length, payment period, or combination of interest and fees. We support legislation that will ensure business owners have the same information for business capital that is mandated for consumer financing products such as credit cards, mortgages, and short-term personal loans, including APR.

APR or estimated APR can be calculated for any financing product, regardless of its structure, fees, or term length. That's why companies providing a range of innovative financing products for consumers have been disclosing APR or estimated APR for decades as required under the Truth in Lending Act. In fact, many of the same business financing providers that claim they can't calculate APR already disclose annualized yields to investors using the same information they would use to disclose APR to business owners. Maryland business owners deserve the same transparency.

As introduced, HB574 would support a healthy business financing market that rewards finance providers for offering the most innovative and affordable products, rather than devising the most misleading pricing information. We urge you to stand with Maryland business owners by supporting HB574. We are happy to serve as a resource as you move forward.

Sincerely,

Responsible Business Lending Coalition

- Accion Opportunity Fund
- Aspen Institute
- Bluevine
- Camino Financial
- Community Investment Management
- LendingClub
- National Association for Latino Community Asset Builders (NALCAB)
- National Community Reinvestment Coalition (NCRC)
- Opportunity Finance Network (OFN)
- Small Business Majority

Maryland-Based Organizations

- Baltimore Community Lending
- CASH Campaign of Maryland

- Community Development Network of Maryland
- Economic Action Maryland
- Maryland Bankers Association
- Maryland Retailers Alliance
- Rebirth, Inc.

DMV-Based Organizations

- City First Enterprises
- Latino Economic Development Center

National Organizations

- African American Alliance of CDFI CEOs
- American Fintech Council
- Lendistry
- National Urban League
- Woodstock Institute