



May 13th, 2024

Chair Margaret Croke
Financial Institutions Committee
250-W Stratton Office Building
Springfield, IL 62706

RE: SUPPORT for SB 2234, the Small Business Financing Transparency Act

Dear Chair Croke, Vice Chair Avelar, and honorable members of the committee,

Main Street small business owners are paying the price, quite literally, for the lack of transparency in small business financing today. The Responsible Business Lending Coalition represents over one thousand small business groups, for-profit financing providers, nonprofit CDFIs, civil rights groups, and nonprofit community advocates, as well as tens of thousands of small businesses themselves. We have come together out of shared concern about the state of small business financing. Across our many differences, we all agree that small businesses deserve to see transparent prices when seeking credit. We urge you to pass SB 2234.

Small business financing has changed dramatically since the 2008 crisis. Today, business owners are often being charged APRs of 50%, and as high as 350%, without these rates ever being disclosed.¹ This bill would bring transparency to small business financing by requiring commonsense disclosure of prices and terms, just as is already law in New York and California, and as has been required nationwide for consumer lending since the 1968 Truth in Lending Act.

We project that this bill would save Illinois small businesses an estimated \$175 million to \$835 million dollars each year in unnecessary interest and fees, simply by empowering business owners to make better-informed price comparisons and sometimes choose a lower-cost financing option if they want to. Hispanic business owners would save \$22 million to \$104 million, and Black business owners would save an estimated \$24 million to \$112 million a year.²

SB 2234 has been amended five times, reflecting substantial compromises that have taken place. It is a better bill than previous versions, resulting in some stakeholders withdrawing opposition and others joining in support, after meeting and negotiating solutions. Business owners cannot afford another year of being overcharged and misled.

¹ See, e.g. Woodstock Institute, "Analysis of Small Business Loan Terms," [Analysis of Business Loan Terms - Woodstock Institute](#); see also, Accion Opportunity Fund, "Unaffordable and Unsustainable: The New Business Lending," <https://aofund.org/news/unaffordable-and-unsustainable-new-business-lending/>

² RBLC analysis based on Federal Reserve, US Census, and Financial Health Network data

The Federal Reserve has published multiple research reports documenting that today, “small businesses find it difficult to compare credit products,” and that “standardized disclosures could support more informed borrowing decisions.”³ The Federal Reserve research finds that, when small business owners are provided a standardized disclosure that includes the APR, “a majority of participants commented that APR was among its most helpful details.”⁴

Competition among financing providers can lead to better, more affordable financing options. But effective price competition cannot take place if prices are not transparently disclosed. Today, financing companies often need not compete on price, and instead compete on how cleverly they can obfuscate their prices to appear less expensive. The Federal Reserve research documents that small business financing companies today often quote prices using “non-standard” price metrics that can have the effect of misguiding business owners into more expensive financing.⁵ Illinois small businesses are paying unnecessarily high prices as a result.

This bill does not restrict any product or price from being offered. It does not limit access to capital in any way. It requires price transparency. Some companies who charge small business owners high APRs have opposed this bill, claiming it is unsuited for the expensive financing they offer. However, APR or Estimated APR can be calculated for any financing product regardless of its structure. After all, the Estimated APR a financing company proposes to charge is the same as the annualized rate they expect to earn. They know the expected annualized rate, and small business borrowers should too. Any dollar that high-rate financing companies lose as a result of price competition is a dollar an Illinois small businesses will have chosen to save.

The Small Business Financing Transparency Act is especially critical for communities of color. Minority-owned businesses are twice as affected by what Federal Reserve research calls “potentially higher-cost and less-transparent credit products.”⁶ These products are siphoning wealth and opportunity out of communities. When a small business overpays for financing, even if it is not forced into bankruptcy it has fewer dollars to hire local employees, grow, or build family wealth.

³ Five studies include: (1) Federal Reserve Bank of Cleveland, “Clicking for Credit: Experiences of Online Lender Applicants from the Small Business Credit Survey,” August 2022. <https://www.clevelandfed.org/publications/cd-reports/2022/sr-20220816-clicking-for-credit-experiences-of-online-lender-applicants-from-sbcs>; (2) Board of Governors of the Federal Reserve System, “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) Board of Governors of the Federal Reserve System, “Searching for Small Business Credit Online,” Consumer and Community Context, Nov 2019, Vol 1, No 2, <https://www.federalreserve.gov/publications/files/consumer-community-context-201911.pdf>; (4) Federal Reserve Board of Governors, “Browsing to Borrow: ‘Mom & Pop’ Small Business Perspectives on Online Lenders,” June 2018. <https://www.federalreserve.gov/publications/files/2018-small-business-lending.pdf>; (5) Federal Reserve Bank of Cleveland, “Alternative Lending through the eyes of ‘Mom & Pop’ Small-Business Owners,” August 2015. <https://www.clevelandfed.org/newsroom-and-events/publications/special-reports/sr-20150825-alternative-lending-through-the-eyes-of-mom-and-pop-small-business-owners.aspx>

⁴ Federal Reserve (2019)

⁵ Federal Reserve (2018)

⁶ Federal Reserve Bank of Atlanta, “Small Business Credit Survey Report on Minority-Owned Firms,” December 2019. <https://perma.cc/XA9B-WRAG>;

We urge you to stand with Illinois small business owners by supporting SB 2234. Please do not hesitate to contact me at louis@borrowersbillofrights.org.

Sincerely,

A handwritten signature in blue ink, appearing to read "Louis Caditz-Peck".

Louis Caditz-Peck
Executive Director
Responsible Business Lending Coalition

Members include:

- *Small businesses*: Small Business Majority
- *Fintech business lenders*: Bluevine, Camino Financial
- *Banks*: LendingClub
- *CDFI business lenders*: Opportunity Finance Network (OFN), Accion Opportunity Fund
- *Community and civil rights groups*: National Community Reinvestment Coalition (NCRC), National Association of Latino Community Asset Builders (NALCAB)
- *Investors*: Community Investment Management
- *Nonpartisan policy studies nonprofit*: Aspen Institute