



The Honorable Monique Limon
Chair, Senate Banking Committee
1020 N Street, Room 522
Sacramento, CA 95814

The Honorable Steve Glazer
1021 O Street, Suite 7520
Sacramento, CA 95814

RE: Broad SUPPORT for SB 1482 (Glazer) - Commercial Financing

Dear Chairwoman Limon and Senator Glazer,

On behalf of a broad coalition representing over 1000 for-profit financing companies and nonprofit advocates for economic opportunity, as well as thousands of small business owners, we offer our strong SUPPORT for SB 1482.

Over the last fifteen years, practices from the pre-crisis subprime mortgage market have become common in small business financing. SB 1482 plugs several holes in California's legal framework that are allowing some brokers and financing companies to take advantage of small businesses. We urge you to pass this bill to create a fair financial marketplace where good actors compete fairly and small businesses thrive.

SB 1482 fixes three problems:

- 1) **The "wild west" of small business brokering** – Small businesses today are routinely "steered" by brokers into financing that pays the broker the highest fee while charging the small business an unnecessarily high rate, echoing one of the causes of the subprime mortgage crisis. In fact,

investigative reports have shown that many subprime mortgage brokers who lost their mortgage licenses simply moved over to the unregulated “wild west” of small business financing.¹

SB 1482 empowers small businesses to make informed decisions in work with brokers and report bad actors, by establishing a licensing framework and transparency about the broker’s offerings.

- 2) **Unfair practices in the financing shadows** - While small business lenders are subject to licensing and oversight by DFPI, similar products that purport not to be loans evade these requirements and operate in the shadows. Additionally, CA’s 2022 ban on “confessions of judgement” (SB 688) is being circumvented by similar legal devices used to take money straight from small businesses bank accounts without legal recourse. And “confidentially clauses” are being used to bully small businesses into keeping silent about their victimization.

SB 1482 will catalyze good lending to small businesses by preventing bad-actor financing companies from taking unfair advantage of their competition and of small business customers.

- 3) **Loopholes in our price disclosure regulations ask bad actors to slap their own wrists** – The unanimous passage of SB 33 last session made permanent California’s transparent price disclosure framework for small business financing. However, that disclosure framework remains hobbled by several loopholes. It may allow merchant cash advance companies to make up unreasonably low prices to disclose, without DFPI ever knowing. The current regulations ask these merchant cash advance companies to police themselves for honesty and slap their own wrists if they catch themselves cheating.

DFPI acknowledged the need to correct this problem five times in its Statement of Reasons for the disclosure rulemaking.² SB 1482 would address this needed fix, and several other loopholes that New York State closed when it passed its own disclosure law that was inspired by California’s.

High-priced financing companies opposed to this bill object to its complexity. Instead, they propose to keep open loopholes in California law that allow them to push high-cost capital onto California small businesses when better options are available. Opponents of this bill are the same high-price financing companies that in 2023 unsuccessfully sued the State of California to overturn our state’s transparent price disclosure rules—during the same year that the California legislature voted unanimously in SB 33 to preserve those same rules.

As for-profit financing companies ourselves, as well as nonprofit advocates and small business owners, we commend your efforts to incorporate the feedback of all stakeholders, and to pass this bill so that our entrepreneurs and communities thrive.

Sincerely,

¹ See e.g. “Brokers Get Big Commissions for Selling Entrepreneurs Costly Loans,” Bloomberg Businessweek, (2014). <https://www.bloomberg.com/news/articles/2014-03-31/brokers-get-big-commissions-for-selling-entrepreneurs-costly-loans>

² e.g. “The Department does not disagree that periodic reporting to the Department from providers who use the underwriting method may be appropriate to ensure providers are not misleading their customers...” DFPI, “Final Statement of Reasons PRO 01/18 Commercial Financing Disclosures,” Pgs 63, 88, 101, 101-2, 136.

Heidi Pickman, CAMEO

Bianca Blomquist, Small Business Majority

Louis Caditz-Peck, Responsible Business Lending Coalition

Members include: Accion Opportunity Fund, Opportunity Finance Network, Camino Financial, Bluevine, Community Investment Management, National Community Reinvestment Coalition, National Association of Latino Community Asset Builders (NALCAB), Small Business Majority, and the Aspen Institute

Bulbul Gupta, Pacific Community Ventures

Kevin Stein, RISE Economy

Louis Caditz-Peck, National Community Reinvestment Coalition

Pamela Deans, Micro Enterprise Collaborative of Inland Southern California

Rani Langer-Croager, Uptima Entrepreneur Cooperative

Ritu Mahajan, Public Counsel

Robert Herrell, Consumer Federation of California

Sharon Miller, Renaissance Entrepreneurship Center

Tate Hill, Access Plus Capital

Ted Mermin, California Low-Income Consumer Coalition