



Marketplace Lending Association

Members: Lending Club, Prosper, Funding Circle, Avant, Marlette Funding, Affirm, Common Bond, Upstart, Peer Street, Lending Point, College Ave, and SoFi

CALIFORNIA REINVESTMENT COALITION



RESPONSIBLE BUSINESS LENDING COALITION

RBLC Members: Accion, Community Investment Management, Funding Circle, Lending Club, Opportunity Fund, Small Business Majority, and the Aspen Institute



Pacific Asian Consortium in Employment



Small Business Finance



SAC BLACK BIZ



A CDC Small Business Finance Affiliate

NaFFAA



August 17, 2018

The Honorable Senator Steve Glazer
State Capitol
Sacramento, CA 95814

By email: daniel.weintraub@sen.ca.gov (CoS)

Cc: Senator Steven Bradford, Senator Andy Vidak, Eileen Newhall, Assembly member Monique Limón, Assembly member Phillip Chen, and Michael Burdick

Re: SB 1235 (Glazer) Commercial Financing Disclosures – SUPPORT

Dear Senator Glazer:

As organizations committed to the financial health of California small businesses, we are registering our **strong support for SB 1235**. We are a diverse coalition, spanning California’s leading community advocacy organizations, for-profit fintech innovators, and nonprofit community development financial institutions

Contact: info@borrowsbillofrights.org

(CDFIs) and service organizations, as well as national research and policy nonprofits. We all agree that small businesses deserve the common-sense disclosures in Senator Glazer’s SB 1235. In response to widespread calls to action, this bill would become the first small business truth in lending law in the country. It would protect California’s small businesses and economy, support responsible industry innovation, and set the standard for the rest of the country to follow. We are very pleased to be able to come out strongly in support of this bill and thank you for your leadership on this issue.

Federal Reserve Bank of Philadelphia President Harker spoke vividly of the need for transparency standards: “I hear these stories constantly about a small business in particular getting into a situation where they didn’t quite know what they signed up for, and then they walk into their community bank and say, ‘I’ve got to get out of this deal, it’s killing me.’ And so, there are good actors and bad actors.” Small business owners agree. Polling by Small Business Majority has found that 8 in 10 small business owners are in favor of regulating online lenders to ensure interest rates and fees are clearly disclosed to borrowers.¹ Their poll is backed up by a recent report from the Federal Reserve.

As you know, the federal Truth in Lending Act protects consumers but does not protect small businesses. The Federal Reserve, Obama Treasury Department, OCC, and others have highlighted that small businesses’ lack of protections is a gap in the regulatory framework.² In this gap, some troubling practices have emerged. Small business financing is now commonly used at interest rates of higher than 50%, or even 350%, without these rates ever being disclosed to the borrower. Opportunity Fund’s study found some California small businesses paying, on average, nearly double what they could afford.³

SB 1235 proposes a common-sense solution—clearly communicate to small businesses what their financing would cost. The bill, in its amended form, provides the Department of Business Oversight the flexibility to set disclosure standards that provide small business owners the transparency they deserve, without impinging on any responsible business practices. This bill has taken suggestions from both industry and advocates and earned our strong support. It is an opportunity for the legislature to show that it can govern on a bipartisan basis to solve real people’s problems. This bill will support small businesses in their quest for access to capital, growth and success.

Sincerely,

- 3 Core
- Access Plus Capital
- ANewAmerica
- Arcata Economic Development Corporation (AEDC)
- Asian Business Association
- Asian Pacific Islander Small Business Program (APISBP)
- Azul
- California Association for Micro Enterprise Development (CAMEO)
- California Black Chamber of Commerce
- California Capital Financial Development Corporation
- California Reinvestment Coalition (CRC)
- California Resources and Training (CARAT)
- CDC Small Business Finance
- Central Valley Urban Institute
- Common Capital
- Economic Development & Financing Corp. (EDFC)
- El Parajo
- Fair Housing Advocates of Northern California (FHANC)
- Fresno Metro Black Chamber of Commerce
- Funding Circle

The Greenlining Institute
 Human Scale Business
 Lending Club
 Lighter Capital
 Main Street Launch
 The Marketplace Lending Association (MLA. Members include Lending Club, Prosper, Funding Circle, Avant, Marlette Funding, Affirm, Common Bond, Upstart, Peer Street, Lending Point, College Ave, and SoFi)
 Mission Economic Development Agency (MEDA)
 National Federation of Filipino American Associations (NaFFA)
 Nav
 Oakland Citizens Committee for Urban Renewal (OCCUR)
 Opening Doors
 Opportunity Fund
 Pacific Asian Consortium in Employment (PACE)
 Pacific Community Ventures (PCV)
 The Responsible Business Lending Coalition (RBLC. Members include Accion, Community Investment Management, Funding Circle, Lending Club, Opportunity Fund, Small Business Majority, and the Aspen Institute.)
 Sac Black Biz
 Scratch
 Small Business California
 Small Business Finance Fund (SBFF)
 Small Business Finance Institute (SBFI)
 Small Business Majority (SBM)
 StreetShares
 Venturize
 Women's Economic Ventures (WEV)
 The Woodstock Institute
 Working Solutions

¹ Small Business Majority, "Small Business Owners Concerned with Predatory Lending, Support More Regulation of Alternative Lenders." December 12th, 2017.

² Treasury 2016: "Small Business Borrowers Will Likely Require Enhanced Safeguards"
<https://www.treasury.gov/connect/blog/Pages/Opportunities-and-Challenges-in-Online-Marketplace-Lending.aspx>;

Federal Reserve Governor Brainard "raised concerns about the risk that some small business borrowers may have difficulty fully understanding the terms of the various loan products or the risk of becoming trapped in layered debt that poses risks to the survival of their businesses." <https://www.federalreserve.gov/newsevents/speech/brainard20150930a.pdf>;

OCC: "Should the OCC use its chartering authority as an opportunity to address the gaps in protections afforded individuals versus small business borrowers, and if so, how?" <https://www.occ.gov/topics/responsible-innovation/comments/special-purpose-national-bank-charters-for-fintech.pdf>;

Federal Reserve Bank of Philadelphia President Harker: <https://youtu.be/6q6RWVsAaCY?t=1h34m45s>;

Federal Reserve Bank of New York President Dudley: "There are individuals who try to take advantage of owners of new businesses by providing them with poor advice or overcharging them for credit... it would be helpful to have consistent standards and transparency requirements for organizations that lend to small businesses. Such standards and requirements exist for lending to households, and I believe the same justification exists to extend these requirements to small businesses."
<https://www.newyorkfed.org/newsevents/speeches/2015/dud150508.html>;

New Federal Reserve Research: "When presented with sample online products, participants generally found the descriptions difficult to understand or lacking detail about costs and features." <https://www.federalreserve.gov/publications/files/2018-small-business-lending.pdf>

³ A study of some California small businesses found they were paying average APRs of 94%, and as high as 350%. The average monthly loan payment was 178% the business' net incomes, pushing the small business from profitability into unprofitability. Opportunity Fund, "Unaffordable and Unsustainable: The New Business Lending," 2016.
<https://www.opportunityfund.org/media/blog/unaffordable-and-unsustainable-new-opportunity-fund-report/>.

Research by the Woodstock Institute also identifies APRs ranging up to 350%. Woodstock Institute, "Analysis of Business Loan Terms." <http://woodstockinst.org/research/fact-sheets/analysis-of-business-loan-terms/>