



➔ UNDISCLOSED APRS AS HIGH AS 350%

Small business demand for capital increased during the pandemic, while loan offerings declined. Now, alternative financing companies promising fast cash seek to fill this void, with prices that are not clearly disclosed to borrowers.

Some **unregulated financing companies charge hidden APRs of up to 350%** but tell businesses their "rates" are in the single digits.

➔ BIPOC BUSINESSES DISPROPORTIONATELY IMPACTED BY DECEPTIVE LENDING

The 2021 Small Business Credit Survey found that:

- Business owners of color are worse off financially due to the pandemic, and
- Credit availability is Black entrepreneurs' top concern.

Moreover, **Black and Hispanic business owners are twice as likely** to apply to high-cost and less transparent financing companies.

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SMALL BUSINESSES NEED RESPONSIBLE CAPITAL TO REBUILD FROM THE COVID-19 CRISIS. A LACK OF TRANSPARENCY PUTS THEIR FUTURES AT RISK.



NOW MORE THAN EVER, SMALL BUSINESSES NEED LENDING TRANSPARENCY TO AVOID UNSUSTAINABLE DEBT AS THEY REBUILD FROM COVID-19.

The federal government has regulated **consumer** financing disclosures for over 50 years. In that time, business financing has grown exponentially, without any disclosure requirements. **It is time for a Small Business Truth in Lending Act.**

Passed in 1968, the Truth in Lending Act requires lenders to disclose key pricing and term information to consumers, enabling them to compare options and make informed credit decisions.

A Small Business Truth in Lending Act would give business owners the same level of transparency from commercial financing providers.



FINANCING TRANSPARENCY COULD SAVE SMALL BUSINESSES BILLIONS OF DOLLARS PER YEAR IN EXCESS FINANCING CHARGES.



ONE MILLION SMALL BUSINESSES

Using data from the Federal Reserve's Small Business Credit Survey and U.S. Census Bureau, we estimate that each year, nearly one million price-sensitive small businesses will select lower-cost financing if presented with clear, comparable cost disclosures. Disclosures must include APR so that businesses can compare offers with different term lengths.

ADDITIONAL BENEFITS

Businesses will not only save on finance charges, but also avoid secondary costs of unaffordable debt.

Time is money: Entrepreneurs often seek to refinance out of unaffordable debt, spending an average of 26 hours searching and applying for credit. By understanding the cost of financing upfront, entrepreneurs can avoid the need to refinance.

Missed payments can increase the cost of credit for years to come:

Unaffordable products lead to missed payments and charge offs. Transparency can help businesses avoid credit score damage that increases the cost of future borrowing.

Preserving future business revenue:

Unaffordable debt can force businesses to close prematurely. Business owners risk losing billions of dollars in future revenue without access to clear disclosures.



SAVING OVER \$4.7 BILLION PER YEAR

Small businesses will save an estimated \$4.7 billion annually with the ability to switch to lower-cost loan products. These savings could fund median-wage-rate jobs for over 115,000 unemployed workers.



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