RESPONSIBLE BUSINESS LENDING COALITION

Federal Policy Recommendations

The Responsible Business Lending Coalition (RBLC) is diverse association of non-profit and for-profit organizations committed to protecting and promoting the rights of small businesses, fostering responsible and innovative small business lending practices, and combatting abusive and predatory products and practices in the small business lending sector.

The RBLC offers the following federal policy recommendations to improve small businesses' access to capital and protect small businesses from the irresponsible lending products and practices.

1. Create a Truth in Lending Act for small businesses
   - *Why*: It has become common for small business financing to be provided at very high cost, with no interest rate or APR ever disclosed.[1] Research by the Federal Reserve indicates that businesses owners often misunderstand the price they are paying.[2]
   - *Recommended disclosures*: Required disclosures should include APR, all upfront and scheduled charges, loan amount, total amount provided to the borrower after deducting fees or charges, payment amount and frequency, total monthly payment amount (if payment frequency is other than monthly), collateral requirements, and any prepayment charges.
   - *Manner of disclosure*: These items should be presented in writing, at the stage when the financing is offered (such as in an initial term sheet, as well as at closing), in a form that is clear, complete, and easy to compare with other options.
   - *Prohibit abusive practices*: including "double dipping" and hidden prepayment charges
   - *Applicability*: Small business financing regulation should apply to both loans and cash advances. "Small business financing" can be defined as commercial financing below $1M, excepting financing to businesses with $5M or more in annual revenue.

2. Support the proposed small business data collection mandated by Dodd-Frank Section 1071
   - *Why*: Currently, no one knows how much lending is happening, to whom, and at what terms.
   - *Recommendation*: In addition to the data collection points required under DFA, collection should include APR and term length, and the category of collateral requirements.

3. Support modernization of the IRS technology used to share tax returns with lenders
   - *Why*: A simple technology update to instantly process IRS form 4506-T can increase access to capital and make borrowing easier, lower cost, and safer, by enabling lenders to consider instant, verified tax data with taxpayer permission.
   - *Recommendation*: Support the bipartisan, bicameral *IRS Data Verification Modernization Act of 2017* (HR 3860/S.1958) that has been introduced by Rep. Patrick McHenry (R-NC) and Sen. Cory Booker (D-NJ). Passing this bill will build on support included in the recently-passed *Consolidated Appropriations Act of 2018* (PL 115-141). The *Consolidated Appropriations Act* directed the IRS[3] to produce a report to House and Senate Appropriations Committees on the necessary steps to pilot the expedited, electronic transfer of IRS tax forms, including form 4506-T. Passing the *IRS Data Verification Modernization Act of 2017* will require the IRS to proceed with building this update.

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[1] The APRs of some financing products are commonly above 50%, and can reach over 300%. See "Unaffordable and Unsustainable: The New Business Lending on Main Street." Opportunity Fund, May 2016.
[2] "Alternative Lending Through the Eyes of 'Mom & Pop' Small-Business Owners." Federal Reserve Bank of Cleveland, August 2015.
[3] House Report 115-234 for the 2018 Financial Services and General Government Appropriations Bill

State Policy Recommendations

The Responsible Business Lending Coalition (RBLC) is diverse association of non-profit and for-profit organizations committed to protecting and promoting the rights of small businesses, fostering responsible and innovative small business lending practices, and combatting abusive and predatory products and practices in the small business lending sector.

The RBLC offers the following state policy recommendations to improve small businesses' access to capital and protect small businesses from the irresponsible lending products and practices:

1. Create a Truth in Lending Act for small businesses
    - *Why*: It has become common for small business financing to be provided at very high cost, with no interest rate or APR ever disclosed.[4] Research by the Federal Reserve indicates that businesses owners often misunderstand the price they are paying.[5]
    - *Recommended disclosures*: Required disclosures should include APR, all upfront and scheduled charges, loan amount, total amount provided to the borrower after deducting fees or charges, payment amount and frequency, total monthly payment amount (if payment frequency is other than monthly), collateral requirements, and any prepayment charges.
    - *Manner of disclosure*: These items should be presented in writing, at the stage when the financing is offered (such as in an initial term sheet, as well as at closing), in a form that is clear, complete, and easy to compare with other options.
    - *Prohibit abusive practices*: including "double dipping" and hidden prepayment charges
    - *Applicability*: Small business financing regulation should apply to both loans and cash advances. "Small business financing" can be defined as commercial financing below $1M, excepting financing to businesses with $5M annual revenue or more.

2. Pass a resolution in support of the *Small Business Borrowers' Bill of Rights*
    - *Why*: A resolutions would alert small business owners of the rights they should demand when borrowing, to help them avoid predatory or irresponsible lending.
    - The *Small Business Borrowers' Bill of Rights* is online at www.BorrowersBillofRights.org.

3. Learn from subprime mortgage crisis and require registration and duty of care of brokers
    - *Why*: Just as with subprime mortgages brokers before 2008, small business brokers have the financial incentive to steer borrowers into the most expensive loans.
    - *Recommendation*: Require small business brokers to register with the State, and disclose to borrower all compensation they would receive from products they suggest. Establish a "duty of care" brokers will exhibit, as enacted in mortgage law to address the same problem.

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[4] The APRs of some financing products are commonly above 50%, and can reach over 300%. See "Unaffordable and Unsustainable: The New Business Lending on Main Street." Opportunity Fund, May 2016.

[5] "Alternative Lending Through the Eyes of 'Mom & Pop' Small-Business Owners." Federal Reserve Bank of Cleveland, August 2015.