



April 28, 2023

State of Texas - Senate Business and Commerce Committee
ATTN: Charles Schwertner, Chair
P.O. Box 12068-Room SHB 370
Capitol Station Austin, TX 78711

RE: Opposition to SB1918, *An Act Relating to the Regulation of Accounts Receivable Purchase Transaction Actions*

Dear Chair Schwertner, Vice Chair King, and Members of the Senate Committee on Business and Commerce:

The Responsible Business Lending Coalition (RBLC) writes today in opposition to SB1918, *An Act Relating to the Regulation of Accounts Receivable Purchase Transaction Actions* in its current form, as introduced by Senator Parker. We commend the State of Texas for raising this critical small business financing transparency issue. Unfortunately, as currently written SB1918 would set back disclosure efforts rather than delivering the transparency that businesses need when seeking credit from all types of financing products, not just accounts receivable purchase transactions. We urge you to amend the bill immediately so that small businesses in Texas can get the protections they deserve.

Every entrepreneur in Texas deserves access to responsible, affordable capital that will help their business thrive, not force them out of business. Because of loopholes in current laws, some financing providers are misleading business owners to take on harmful debt with annual percentage rates (APRs) of as high as 350%, without these rates ever being disclosed to them.¹ We support legislation that enables business owners to see the APR for any business financing option. APR is a time-tested rate that people know and expect because it is the legally required standard for consumer products such as mortgages, auto loans, credit cards, and short-term personal loans. No matter who they are or where they're looking for capital, business owners deserve access to the same information so they can compare financial products and choose the best option for their business.

Clear and easy-to-compare disclosures are paramount as entrepreneurs and small businesses evaluate financing. Texas has an opportunity to amend this bill to improve fairness and transparency in the financing process so that entrepreneurs and Texas businesses can effectively evaluate and choose the best offer(s) available to them.

The Responsible Business Lending Coalition (RBLC) is a network of nonprofit and for-profit FinTechs, CDFIs, investors, and small business advocates who share a commitment to innovation in small business lending and increasing access to responsible small business financing while at the same time combating the rise of financing and work to combat the rise of non-transparent lending practices.

The [Small Business Borrowers' Bill of Rights](#) (BBoR), developed by the RBLC, represents the first cross-sector consensus on standards of responsible lending to small businesses and these standards have been endorsed by more than 100 small business lenders, brokers, lead generators, and advocacy organizations. The first right identified in the BBoR is the Right to Transparent Pricing and Terms, which calls for small

¹ [Unaffordable-and-Unsustainable-The-New-Business-Lending-on-Main-Street_Opportunity-Fund-Research-Report_May-2016.pdf \(aofund.org\)](#)

business financing providers to clearly disclose the following to any prospective small business borrowers:

1. Loan amount, and the total amount provided after deducting fees or charges
2. Annual percentage rate (APR) or estimated APR
3. Payment amount and frequency, including the actual or estimated total payment amount per month if payment frequency is other than monthly
4. Term or estimated term
5. All upfront and scheduled charges
6. Collateral requirements
7. Any prepayment charges

Disclosure of these seven key terms, particularly the APR or estimated APR, is critical to ensuring that a small business can compare different financing products available in order to make an informed decision. SB 1624 does not include the most critical disclosure term: the annual percentage rate (APR) or estimated APR. Without standardized disclosures, small businesses are more likely to choose higher-cost products. A recent [research study](#) found that when asked to compare a sample short-term loan product with a 9% “simple interest” rate to a credit card with a 21.9% interest rate, most participants in the study incorrectly guessed the short-term loan to be less expensive. What’s more, a [Federal Reserve study](#) demonstrated small businesses, particularly historically underserved Black and Hispanic-owned businesses, are more likely to use “high-cost” and “non-transparent” financing, referring specifically to merchant cash advances (MCAs) and factoring products.

As currently written, the bill does not empower small business borrowers with clear information about the rates and terms of their financing. Ensuring that business owners are able to make accurate comparisons in the commercial financing marketplace would support a healthier financing market where providers are rewarded for providing high-quality, affordable products rather than misleading business owners to take on harmful debt. We urge you to amend the bill to include APR disclosure and the estimated term length for the benefit of small business owners in Texas. The RBLC would be happy to be a resource for your committee.

Sincerely,

The Responsible Business Lending Coalition

