

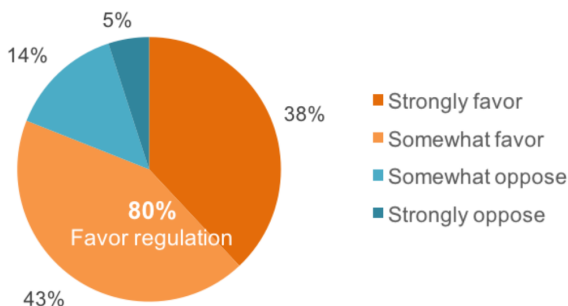


# SUPPORT MAIN STREET AMERICA WITH RESPONSIBLE LENDING POLICIES

Small businesses make up 99.9% of all businesses in the United States and employ nearly half of the country's private workforce. They are the heart of our economy, and in recent years, the small businesses financing marketplace has exploded with options for fast and convenient capital.

Predatory lending practices have also evolved with the changing landscape. A 2015 study found that small businesses today are paying APRs of 94% or more, without these rates ever being disclosed to borrowers.<sup>1</sup> The market has also tightened with the advent of the COVID-19 pandemic, which pushes even more small businesses to enter predatory financing agreements. Currently, there are no transparency requirements for small business financing, and misleading disclosures can lead businesses to overpay for credit, fall into debt cycles, or even permanently close.<sup>2</sup>

To combat the rise of predatory small business lending and encourage responsible innovation, a diverse coalition of private-sector and nonprofit lenders and advocacy organizations formed the [Responsible Business Lending Coalition](#) (RBLC). The RBLC works to advance responsible business lending practices by advocating for state and federal policies, as well as educating lenders and small businesses on responsible lending standards through the Small Business Borrowers' Bill of Rights (BBoR).



**Small Business Majority Poll:** "An overwhelming majority of small business owners reported that they are in favor of regulating online lenders to ensure interest rates and fees are clearly disclosed to borrowers."<sup>3</sup>

## Our Members:



## About the Small Business Borrowers' Bill of Rights

Created in 2015, the Small Business Borrowers' Bill of Rights (BBoR) is the first cross-sector consensus on the rights that small business owners deserve and what financing providers, brokers and lead generators can do to uphold those rights. The BBoR has been signed by over 110 for-profit FinTech innovators, nonprofit CDFIs, advocacy and community groups, investors, lenders, brokers, and marketplaces. These organizations all agree that small businesses deserve the following six Rights:

1. The Right to Transparent Pricing & Terms
2. The Right to Non-Abusive Products
3. The Right to Responsible Underwriting
4. The Right to Fair Treatment from Brokers & Marketplaces
5. The Right to Fair Collections Practices
6. The Right to Inclusive Credit Access

Each principle includes detailed practice standards, available at:

<http://www.borrowersbillofrights.org>  
[info@borrowersbillofrights.org](mailto:info@borrowersbillofrights.org)

<sup>1</sup> St. Louis, Weaver, Donaker Brown, and McShane, Opportunity Fund, "Unaffordable and Unsustainable: The New Business Lending on Main Street," May 2016.

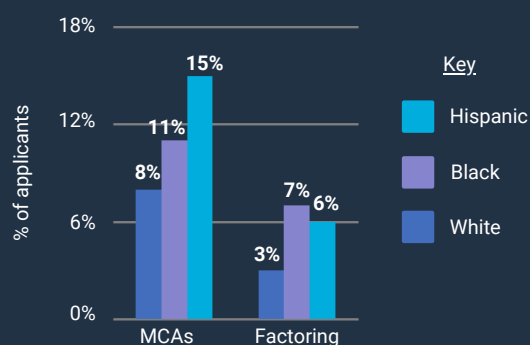
[https://www.opportunityfund.org/wpcontent/uploads/2019/09/UnaffordableandUnsustainable-The-New-Business-Lending-on-Main-Street-Opportunity-Fund-Research-Report\\_May-2016.pdf](https://www.opportunityfund.org/wpcontent/uploads/2019/09/UnaffordableandUnsustainable-The-New-Business-Lending-on-Main-Street-Opportunity-Fund-Research-Report_May-2016.pdf)

<sup>2</sup> Board of Governors of the Federal Reserve System, "Federal Reserve releases findings from study of small business owners' perspectives on online lenders and products," June 2018.

<https://www.federalreserve.gov/newsevents/pressreleases/other20180628a.htm>

# Responsible Business Lending Policy Recommendations

The federal Truth in Lending Act mandates transparent disclosures for consumer financing, but does not apply to commercial financing. Irresponsible lenders exploit this regulatory gap and deceive small business borrowers by touting misleading rates and fees, similar to the mortgage crisis of the Great Recession. These predatory behaviors are more damaging than ever, particularly for women- and minority-owned small businesses who disproportionately lack access to traditional financial institutions.



Federal Reserve research<sup>4</sup> shows that minority-owned firms more frequently applied for potentially higher-cost and less-transparent credit products

The RBLC urges the Biden-Harris Administration and the 117th Congress to support the following policies that will expand access to affordable capital, end deceptive lending practices, and reduce disparate outcomes for business owners of color:

1. **H.R. 7889: The Small Business Lending Disclosure and Broker Regulation Act**
2. **Robust and Timely Implementation of the Dodd-Frank Act Section 1071**

## Pass a Truth in Lending Act for Small Business Financing

In the 116th Congress, Chairwoman Nydia Velázquez introduced the Small Business Lending Disclosure and Broker Regulation Act of 2020 (H.R. 7889). Title I of H.R. 7889 mandates standardized disclosures for all commercial financing products, similar to the disclosures that consumers receive for mortgages, lines of credit, etc. Re-introducing and passing this legislation in the 117th Congress would curb deception in the commercial financing marketplace and save small business owners at least \$3.8 billion annually in excessive fees<sup>5</sup> and interest.

Transparent disclosure of the annual percentage rate (APR) and other key terms will empower borrowers to make informed financing decisions and avoid debt traps. Today, small businesses are misled by some financing providers disclosing “non-standard” rates that resemble APRs but are not, and that make products appear less expensive than they actually are. Universal APR disclosure is critical to enabling apples-to-apples product comparisons and preventing business owners from unknowingly taking out unsustainable debt.

## Implement Section 1071 of the Dodd-Frank Act

The RBLC advocates for strong implementation of Section 1071 of the Dodd-Frank Act. Section 1071 amends the Equal Credit Opportunity Act (ECOA), Regulation B, to require financial institutions to maintain and submit certain data on applications for credit for women-owned, minority-owned, and small businesses. Robust data collection will track disparities, hold providers accountable, and foster a more complete understanding of the small business financing marketplace.

All small businesses owned by women and minorities and all small business financing providers, including merchant cash advance (MCA) and factoring companies, should be subjected to the reporting requirements under Section 1071. It is also critical that APR is included as a mandatory data point, so that policymakers can monitor disparate outcomes in both access to capital and pricing.

The final rule should also collect the following data:

- Type of product e.g. term loan, line of credit, MCA, factoring, equipment leasing, etc.
- Loan amount requested and originated to identify supply gaps

<sup>3</sup> Small Business Majority, “SMALL BUSINESS OWNERS CONCERNED WITH PREDATORY LENDING, SUPPORT MORE REGULATION OF ALTERNATIVE LENDERS,” Dec. 2017. <https://smallbusinessmajority.org/our-research/access-capital/small-business-owners-concerned-predatory-lending-support-more-regulation-alternative-lenders>

<sup>4</sup> Zeeuw, Mels de, Federal Reserve Bank of Atlanta, “Small Business Credit Survey: Report on Minority-Owned Firms,” Dec 2019. <https://www.fedsmallbusiness.org/medialibrary/fedsmallbusiness/files/2019/20191211-ced-minority-owned-firmsreport.pdf>

<sup>5</sup> Responsible Business Lending Coalition, “Responsible Business Lending Coalition Endorses Small Business Lending Disclosure and Broker Regulation Act.” July 2020. <http://www.borrowersbillofrights.org/rblcendorsesblendingandbrokerdisclosureact.html>