February 22, 2023

State of Connecticut Banking Committee
Legislative Office Building
Room 2400
Hartford, CT 06106

RE: Support for SB 1032 An Act Requiring Certain Financial Disclosures

Dear Members of the Connecticut Banking Committee:

The Responsible Business Lending Coalition (RBLC) writes in support of SB 1032*, An Act Requiring Certain Financial Disclosures*, as introduced by the Banking Committee. The bill aims to bring transparency to the small business lending marketplace through standardized disclosures, particularly disclosure of the annual percentage rate (APR). When small business owners are empowered with clear information about their financing options, they have the agency to choose the best product for their needs.

The undersigned organizations represent members of the RBLC, a leading cross-sector voice on small business financial protection. The coalition includes nonprofit and for-profit fintech, community development financial institutions (CDFIs), investors, and small business advocates whom all share a commitment to innovation in small business lending as well as serious concerns about the rise of irresponsible small business lending. Two of our member organizations, Small Business Majority (SBM) and Accion Opportunity Fund (AOF), will testify in support of this bill as it is considered through the Connecticut Banking Committee.

As introduced, SB 1032 would bring sunshine to the commercial financing marketplace by requiring all providers to disclose APR for all small business loan products. APR is the only established metric that enables informed comparisons of the cost of capital over time and between products of different dollar amounts and term lengths. APR is the time-tested rate that people know and expect because it is the legally required standard for mortgages, auto loans, credit cards, student loans, and personal loans, including short-term loans.

When small businesses currently shop for financing, they are not able to make an apples-to-apples comparison across financing providers and products. Without standardization of disclosure requirements across lenders, small businesses are more likely to choose higher-cost products. For instance, a 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. Further research indicates that small businesses can pay APRs of 94%, and as high as 350%, without these high rates being properly disclosed. This is why including both APR and all financing products in the legislation will better protect small businesses. What's more, a Federal Reserve study demonstrated that Black and Hispanic-owned businesses are more likely to use "high-cost"

and "non-transparent" financing, referring specifically to merchant cash advances as well as factoring products. This legislation would protect women-owned businesses which account for 40.8% of all small businesses and Hispanic and racial minority-owned businesses which account for 22.2 percent of all small businesses in Connecticut.

It is important to note that calculating APR is not burdensome for providers or the marketplace. It does not explicitly prohibit products or providers. Providers can easily calculate APR using common spreadsheet software. Many commercial financing providers across the country already disclose APR without disclosure impeding their operations. Other providers, including revenue-based financing companies, need to disclose annualized yields to their investors without disclosing the true cost of funds, with all fees, for their borrowers. These companies will soon be required to calculate and disclose APR in California and New York. Without the ability to make comparisons across products and providers with terms those small business owners understand from a consumer perspective, fair competition would be stifled, and misleading providers gain an advantage. Once comprehensive disclosures are implemented, the only reason that a provider would stop operating is as a natural consequence of market competition. We can look to the consumer financing marketplace as an example of a vibrant, healthy, and competitive marketplace over fifty years after the implementation of the consumer Truth-in-Lending Act and APR disclosure.

In the below appendices, we included a document that dispels some of the common myths regarding transparent disclosure requirements and the need for APR.

We ask you to support SB 1032 and swiftly pass this critical small business protection bill through the Banking Committee and have it signed into law as soon as possible. We are happy to serve as a resource as you move forward.

Sincerely,

The Responsible Business Lending Coalition