



HB 1478- Commercial Law - Merchant Cash Advance - Prohibition
House Economic Matters Committee
March 2nd, 2020
SUPPORT

Chairman Davis, Vice-Chair and members of the committee, thank you for the opportunity to submit testimony in support of House Bill 1478. This bill will prohibit merchant cash advances in the state of Maryland.

The CASH Campaign of Maryland promotes economic advancement for low-to-moderate income individuals and families in Baltimore and across Maryland. CASH accomplishes its mission through operating a portfolio of direct service programs, building organizational and field capacity, and leading policy and advocacy initiatives to strengthen family economic stability. CASH and its partners across the state achieve this by providing free tax preparation services through the IRS program 'VITA', offering free financial education and coaching, and engaging in policy research and advocacy.

A merchant cash advance is when lenders give businesses a sum of money and the small business repays it by a percentage of future credit or debit card revenues. They pay a weekly or daily amount based on their credit or debit revenue until the original amount plus the fee are paid off. Merchant cash advances use a factor rate to determine the fee that is added to the original given amount. The fee to repay the debt is fixed. This is unlike a loan with an APR, which means the fee amount varies by the length of payment. With APR, if a business pays a loan back quickly, they can save money on the interest. If a business pays a merchant cash advance quickly, the fee is still the same. This can result in merchant cash advances having excessively high fees, especially compared to traditional small business loans.

Merchant cash advances operate as an alternative financial service. Similar to payday loans, merchant cash advances serve a population that may not access traditional banks and they offer quick and easy money in the present that can result in paying high fees in the future. However unlike payday loans, Maryland has not taken steps to protect people from this practice. The Maryland General Assembly passed the Credit Services Business Act and strengthened it in 2010 and 2017. The General Assembly felt the need to protect Marylanders from the predatory practices payday loan lenders were employing.

HB 1478 is asking for protection from merchant cash advance transactions, which can end in small business paying extremely high fees much like individuals paying high fees with payday loans. The result of this practice is that small businesses are stuck in a cycle of expensive debt.

Thus, we encourage you to return a favorable report for HB 1478.