



**HB 664- Financial Institutions - Consumer Credit - Sales-Based Financing Transactions**  
**February 17, 2021**  
**SUPPORT**

Chairman Davis, Vice-Chair and members of the committee, thank you for the opportunity to submit testimony in support of House Bill 664. This bill will protect small businesses by regulating sales-based financing transactions.

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. **Almost 4,000 of CASH's tax preparation clients earn less than \$10,000 annually. More than half earn less than \$20,000.**

Merchant Cash Advances (MCA) are a popular type of sales-based financing transactions. A MCA is a non-traditional form of financing where a company offers quick and accessible capital to a business without requiring collateral. Lenders give businesses a sum of money, and the small business repay it by enabling the MCA company to directly withdraw a percentage of credit or debit card revenues from the businesses Automatic Clearing House (ACH). **Due to the lack of regulation, small businesses can end up paying extremely high interest rates, and they are at risk of having their bank frozen and funds seized without court involvement.**

MCA companies use a factor rate to determine the cost of the cash advance. They use factor rates as opposed to the more common annual percentage rate (APR). This leads to confusion and small businesses paying high costs to access capital. The rate is determined by numerous elements and is multiplied to the advance amount to determine the overall cost of the cash advance.

- *For example:* If a small business receives a cash advance of \$10,000 with a factor rate of 1.5, then that business owes \$15,000 regardless of how long it takes to pay.

The almost immediate access to funds that MCAs offer is especially tempting for small businesses with poor credit or in desperate need of cash flow. Small businesses are vulnerable to MCA's, because they operate as an alternative financial service similar to the high fees per loan amount of payday loans. However, unlike payday loans, they are not a regulated service. The Maryland General Assembly passed the Credit Services Business Act and strengthened it in 2010 and 2017 to protect Marylanders from the predatory practices payday loan lenders were employing. Therefore, MCAs and other sales-based financing transactions should be regulated by the state to require clear and transparent terms to their agreements.

The pandemic is creating new and unique obstacles that threaten the security of small businesses, and they must be protected from predatory lending practices. HB 664 will provide protection from MCA's and other sales-based financing transactions, which harm small businesses.

***Thus, we encourage you to return a favorable report for HB 664.***