Innovative Lending Platform Association

Testimony on Behalf of the Innovative Lending Platform Association
In Opposition to House Bill 664

Chairman Davis, Members of the House Economic Matters Committee,

The Innovative Lending Platform Association (ILPA) thank you for the opportunity to submit testimony in opposition to House Bill 664.

ILPA is the leading trade organization for online lending and service companies serving small businesses. Our members (the Business Backer, Kabbage, FundBox, Lendio, PayNet, Funding Circle, Blue Vine, and Mulligan Funding) offer various financing products, from term loans and lines of credit to merchant cash advance (MCA) and factoring. Our members are proud to provide thousands of Maryland businesses with working capital used to purchase inventory, hire additional hands for the busy season, expand the business, or repair damaged or outdated equipment. This isn't the last resort for financing. Our members are the first stop for a quick infusion of cash for many small businesses to invest in their business. Our members use innovative underwriting and the latest technology to quickly evaluate a customer's credit risk and provide financing in as little as 24 hours. We are the FedEx of small business financing.

We share a commitment to the health and success of our nation's small businesses. We are dedicated to advancing best practices and standards that promote responsible innovation and access to capital. The ILPA strongly supports transparency in small business financing disclosures, and our member companies are committed to providing small businesses with responsible and transparent financing options. In 2016, the ILPA created an industry-first model disclosure tool – the SMART Box® – that presents small business borrowers with comprehensive pricing metrics and identifies key loan terms in plain, easy-to-understand language.

We are currently updating SMART Box to accommodate more small business financing products and align with new state laws. The updated SMART Box metrics will include APR or APR Equivalent for products like MCAs that do not have a defined term, Total Cost, Purchase Price Amount, Disbursement Amount, [Receivables/Revenue] Sold, Estimated Delivery Time, Estimated Monthly Payment, Cents on Dollar, Security Interest and Collateral Requirements, Personal Guarantee and Pre-Payment Terms.

Following the 2008 Financial Crisis, small business financing, particularly for the smallest of small businesses, all but dried up. Unless businesses were seeking more than $1 million in financing, banks were not providing the financing small businesses need. ILPA members stepped into that financing gap and are making an extraordinary difference.

ILPA believes that small businesses benefit from having a diverse set of financing options. For some small businesses, more traditional financing products such as term loans or credit lines are the best option. For other businesses, products such as MCAs are the more appropriate option: they offer a flexibility that other products may not offer by allowing a business that may have limited assets to borrow against, limited personal credit, or operates a seasonal business. Because instead of a traditional loan or line of credit with set repayment terms, or fixed payments, an MCA is tied to the customer's revenue. In exchange for an influx of cash, the customer sells a percentage of their future receivables. For example, in exchange for $10,000 of financing, a customer may agree to pay 1% of their daily revenue to the provider until they pay the provider $12,000. For seasonal businesses or businesses with unpredictable cash flow, MCAs allow customers to pay more when business is good and less if business is slow, or even nothing if their revenue is zero. Since there is no repayment term, there also is no benefit for customers to repay the financing early to save money on interest. The price of the financing is fixed.

ILPA recognizes that, like any other industry, there are some bad actors. Some providers are less than truthful about the costs of their financing. This is also why ILPA believes so strongly in transparency and supported efforts in California and most recently in New York, to require small business financing providers, including MCAs, to disclose key metrics and essential terms that customers expect to see, such as APR, customers will be empowered to compare financing products apples-to-apples.

Since every small business and their needs are unique, ILPA must oppose the arbitrary rate cap introduced in HOUSE BILL 664. Access to capital is critical for Maryland small businesses. For some of those businesses, an MCA may be the best option. An arbitrary rate cap effectively makes it impractical to offer an MCA product to Maryland small businesses, banning MCAs or changing the economics so that only the most well-off businesses can leverage their sales or future receivables to secure financing.

We appreciate the sponsor’s concerns for small businesses. It is a concern we share. All of our members want to see their customers grow and help those businesses succeed at every step of the way. However, we must respectfully request the Committee reject HOUSE BILL 664 as long as it contains an arbitrary rate cap. We believe there are far better options for protecting small businesses, effectively banning a product, or only making that product available to the most affluent businesses.