Innovative Lending Platform Association

Opposition to House Bill 664 /Senate Bill 532

ILPA Contributions to Small Business Success

Following the 2008 Financial Crisis, banks were not offering small businesses the financing they needed or not offering it in a reasonable time frame. This rigid approach to lending leads to discrimination against smaller, newer, and riskier businesses. ILPA members invested in innovative data, analytics, and technology to meet these needs and provide growth funding and opportunity to those small businesses.

When the coronavirus pandemic brought on social distancing and lockdowns, millions of small businesses were forced to close their doors, cut back on hours, and lay off staff. When the federal government launched the Paycheck Protection Program, ILPA members assisted more than 490,000 businesses receive $16 billion in PPP funding. Our technology-based underwriting and experience serving the smallest of small businesses enabled our members to help small businesses stay in business and keep millions of employees on the payroll.

About Sales-Based Financing

For many small businesses, **Sales-Based Financing may be their best financing option. It offers increased flexibility**, making it possible to extend capital to businesses with high receivables but that may have limited fixed assets to borrow against, limited credit histories, or operate seasonally.

Sales-Based Financing offers:

- Repayment options that are tied to actual customer revenue rather than traditional fixed repayment terms from a term loan or a credit line.
- In exchange for an influx of cash, the customer sells a percentage of their future receivables, often from a specific or limited channel like credit card receivables.
- For example, in exchange for $10,000 of financing, a customer may agree to pay 1% of their daily or weekly revenues to the provider until they pay the provider $12,000, with flexibility because fees are only assessed when a sale (receivable) occurs.

Before enacting arbitrary rate caps that would effectively eliminate an entire sector of small business finance in the state or force them to provide financing to the most well-off businesses, the legislature must consider the vital role alternative financing plays in the creation and expansion of small businesses.

Transparency for Small Businesses

In 2016, the **ILPA created an industry-first model disclosure tool – the SMART Box®** [1] which presents small business borrowers with all the critical information they need to make an informed financing decision and to shop and compare multiple offers using common metrics.

ILPA believes in full cost transparency.

- ILPA supports the development of California SB 1235 regulations, the first law in the nation on small business disclosure
- ILPA introduced, and passed into law, legislation in New York to do the same
- ILPA is working with legislators in New Jersey to improve their proposed disclosure bill

[1] View an example at https://innovativelending.org/smart-box/

By requiring small business financing providers 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. We are proud of our work on the **SMART Box® and on these legislative and regulatory disclosure initiatives.**

New York

Last year, ILPA, in partnership with the Responsible Business Lending Coalition, worked with the New York State Legislature to pass the strongest small business financing transparency and disclosure law in the country. The New York Small Business Truth in Lending Act requires small business financing providers to disclose several key metrics, including Total Cost of Capital and APR or Estimated APR, ensuring small businesses have all the information they need to make an informed decision. The New York Small Business Truth in Lending Act should be a model for other states that want to protect small businesses.

Concerns with House Bill 664/Senate Bill 532

We appreciate the need to protect small businesses from bad actors, and this bill is well-intentioned. **ILPA shares a commitment to our nation's small businesses' health and success** and is dedicated to advancing best practices and standards that promote responsible innovation and access to working capital.

While we support requiring disclosure for Sales-Based Financing products, **ILPA must oppose House Bill 664/Senate Bill 532** because:

- Access to capital is critical for Maryland small businesses, and Sales-Based Financing may be the best option for those businesses.
- Arbitrary rate caps that ignore the economics of risk-based pricing will either force Sales-Based Financing providers from the state or force them to only provide financing to the most well-off, least risky businesses. Businesses that already have no problem finding capital.

Small business financing is a very complex and critically important industry, especially during the current crisis and recovery. As such, ILPA respectfully requests that the legislature examine the provisions of this bill closely pursue policy changes that will protect small businesses and ensure choices in the marketplace, particularly for businesses that already have few financing options.