Maryland House of Delegates
Economic Matters Committee
Room 231
House Office Building
Annapolis, Maryland 21401

  RE: Oral Testimony in SUPPORT for HB 574 Commercial Financing - Small Business Truth in Lending Act

Honorable Delegates,

My name is Louis Caditz-Peck. I am Senior Fellow at the National Community Reinvestment Coalition, representing over 700 community organizations nationwide and in Maryland. Our work includes lending to small businesses in Maryland. Personally, I was appointed by the CFPB to its advisory board. And I'm also a former for-profit small business financing exec.

I'm here today to answer your questions about how merchant cash advances ("MCAs") compute Estimated APRs.

So what is APR? It's just the math for "how money much you pay" as a percentage of "how much money you get to use" over a common unit of the time.

The bill asks MCAs to disclose only an *Estimated* APR, recognizing that the computation for MCAs includes an *estimate* of the business's future revenues. The MCA company *already has that estimate.*

In the contract excerpt circulated to you in person, it's printed in the top right. That's the $15,763.25. The MCA company relied on this estimate to decide to put their capital at risk, to size the financing offer, and set the other terms. So don't let them tell you the estimate is too unreliable to use.

To compute Estimated APR, you need 3 data points:

1) First, how much money the business owner gets.

   That's the "11,640" over on the left.

2) Second, the size of their expected payments.

   That's the $517.50 weekly payment right below that.

3) Last, when the business is expected to make these payments.

   To find that, we take the total amount the business owner has to repay ($16,560 at the top), and divide it by the expected payment size. We see it's expected to take 32 weekly payments to pay off this MCA.

That's all we need! We just plug those in to Microsoft Excel and find out that the Estimated APR is 119%. If the MCA has more complex terms, we can use other Excel formulas like Internal Rate of Return, XIRR, or automated software.

Thank you.

Louis Caditz-Peck
Senior Fellow, National Community Reinvestment Coalition