



Dear ULC Study Committee on Commercial Financing Disclosure,

The Responsible Business Lending Coalition (“RBLC”) appreciates your invitation to provide input regarding the consideration of a model or uniform law for small business financing disclosure. We commend Professor Sepinuck on the thoughtful memo provided for the Study Committee’s October 24th meeting and hope here to provide additional information for the Study Committee’s consideration.

The RBLC is the leading cross-sector voice on small business financial protection. The RBLC includes for-profit financing companies, nonprofit and for-profit CDFIs, financing investors, and small business advocates who share a commitment to expanding access to responsible and innovative capital options that will help small businesses thrive.¹

In the following letter, we offer several points for your consideration:

- 1) APR is the keystone of transparent pricing. Without it, disclosure bills are counterproductive..... 3
- 2) APR or Estimated APR can be calculated for all types of financing, including merchant cash advances and factoring..... 8
- 3) A successful disclosure bill would cover all commonly used small business financing products..... 10
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In 2015, the RBLC raised the need for small business financing disclosure to national awareness by launching the *Small Business Borrower’s Bill of Rights* initiative. The *Small Business Borrower’s Bill of Rights* is the first cross-sector consensus on responsible lending standards in small business financing.² It begins with a transparent disclosure framework, detailed in Right #1, The Right to Transparent Pricing and Terms, which has contributed to a nationwide wave of lawmaking around small business price disclosure. The Coalition’s position is that any commercial finance disclosure law must align with Right #1 of the Small Business Borrowers’ Bill of Rights to offer comprehensive protections and support a healthy business financing

¹ Members of the Responsible Business Lending Coalition include Accion Opportunity Fund, the Aspen Institute, BlueVine, Camino Financial, Community Investment Management, LendingClub, Opportunity Finance Network, the National Association for Latino Community Asset Builders, the National Community Reinvestment Coalition, and Small Business Majority. For more information, visit www.borrowersbillofrights.org.

² Over 80 small business lenders, brokers, and advocacy organizations have endorsed the *Small Business Borrower’s Bill of Rights*. See <http://www.borrowersbillofrights.org/signatories.html>. We welcome additional endorsers who seek to uphold responsible practices in small business financing. To join, please visit <http://www.borrowersbillofrights.org/join-us.html>

market. We urge the Committee to reference these Rights in considering any model or uniform commercial finance disclosure law.³

In 2018, inspired by the *Small Business Borrower's Bill of Rights*, the RBLC led advocacy efforts supporting the passage of the first small business truth in lending law in the nation, California's SB 1235.⁴ In 2020, the RBLC supported the passage of the second small business truth in lending law in the nation, New York S5470b. We consider NY S5470b to be the model law for small business financing disclosure because it aligns most comprehensively with the Small Business Borrowers' Bill of Rights. It incorporates many lessons learned after California's SB 1235 and reflects two years of negotiations that took place among industry, nonprofit, and small business advocacy stakeholders who came to the table after California's law passed.⁵

These campaigns for small business financing disclosure were borne out changes in the small business financing market. For many years, the primary financing challenge facing small business owners was one of exclusion—a lack of access to capital for many businesses. Over the last two decades, that problem has been joined by another: the rise of irresponsible small business financing.

Today, small business seeking financing often find themselves between a rock and a hard place. On the one hand, many businesses continue to struggle to access capital.⁶ On the other hand, businesses are now inundated with offers of fast, easy cash. Unfortunately, these newer types of financing are often characterized by high and uncompetitive rates, a lack of transparency about those high rates, and a lack of underwriting of the businesses' ability to repay.⁷

For example, research by the CDFI Accion Opportunity Fund evaluated the terms of financing secured by business owners who had approached Accion Opportunity Fund to refinance products that were harming their cash flow. Their analysis found that that among these products, the effective APRs averaged 94% and exceeded 350% in some cases. Further, the average payment amount for these products represented 178% of the small businesses borrower's net income.⁸ In

³ Detailed practice standards for the Small Business Borrowers' Bill of Rights are available at <http://www.borrowersbillofrights.org/bill-of-rights.html>

⁴ This year, RBLC organized the passage of California SB 33, which passed unanimously to strengthen this disclosure framework by making permanent the required disclosure of an annualized rate, and explicitly naming APR and Estimated APR in statutory text.

⁵ Ultimately, California and New York's small business disclosure regulations are substantially similar, though New York's include several important elements omitted in California. Many of the important details of the truth in lending framework that appear in regulation in California exist in both statute and regulation in New York.

⁶ For example, less than half of nonemployer firms reported their funding needs being met in 2019 research by the Federal Reserve Bank of New York. Federal Reserve Bank of New York, "Small Business Credit Survey: Report on Nonemployer Firms," 2019, pg 10. <https://www.newyorkfed.org/smallbusiness/small-business-credit-survey-2018>.

⁷ See e.g. Woodstock Institute, "Analysis of Small Business Loan Terms," July 2016. Woodstock Institute. https://woodstockinst.org/wp-content/uploads/2016/07/Woodstock_Analysis_of_Online_SB_Loan_Terms.pdf.

⁸ Opportunity Fund, "Unaffordable and Unsustainable: The New Business Lending on Main Street." May 2016. [Unaffordable-and-Unsustainable-The-New-Business-Lending-on-Main-Street_Opportunity-Fund-Research-Report_May-2016.pdf](https://www.aofund.org/research/unaffordable-and-unsustainable-the-new-business-lending-on-main-street) (aofund.org)

other words, the *average* financing contract was pushing the small business into unprofitability, charging double what the business could afford to pay.

Although some small businesses may be able to bounce back from using high-cost, short-term financing in an emergency, the business models of high-cost financing companies are often designed to encourage borrowers to use short-time financing on an ongoing basis that resembles a payday loan debt cycle.⁹ For example, the CEO and founder of a one short-term financing company celebrated on stage at an industry conference that “customers take 20 loans over four to five years, four to five loans every year.”¹⁰ An analysis by reporters at McClatchy nearly a decade ago found more than 700 personal and business bankruptcies associated with major merchant cash advance companies.¹¹

Concerns like these led RBLC to partner with hundreds of organizations nationwide to pass the state small business truth in lending laws referenced above and to introduce a federal small business financing disclosure bill that has earned support from nearly 90 diverse organizations including fintech companies, banks, chambers of commerce, racial justice organizations, small business technical assistance providers, CDFIs, and more.¹²

These legislative advancements reflect the efforts of for-profit and non-profit financing innovators to create a level playing field of transparent price disclosure where competition and innovation can thrive. Price competition cannot take place without transparent price disclosure. Today, in states that do not require transparent disclosure of APR or Estimated APR, small business owners lack important information they need to compare financing prices. Financing companies may compete on the speed and ease of accessing their financing, but in some market segments competition on the price of that financing is hindered. In fact, in some sense competition is taking place on how well the financing company is able to obscure their prices.

1) APR is the keystone of transparent pricing. Without it, disclosure bills are counterproductive.

The lack of transparency in small business financing today *is* the lack of APR. APR is the only pricing metric that enables business owners to accurately compare various finance products, regardless of the amount, term length, payment period, or combination of interest and fees. This is why APR has become familiar as the keystone of transparent price disclosure in consumer financing since the Truth in Lending Act was passed in 1968. Entrepreneurs often rely on personal finance products to fund their businesses, such as credit cards and home equity lines of

⁹ deBanked, “Boiler Rooms Are Not Brands, Kabbage CEO Says,” April 2018.

<https://debanked.com/2018/04/boiler-rooms-are-not-brands-kabbage-ceo-says>

¹⁰ Zachary Miller, “Behind Amex’s use of Kabbage as ‘the heartbeat’ of its strategy to help SMBs with cash flow,” Tearsheet, Sept 2022. <https://tearsheet.co/podcasts/behind-amexs-use-of-kabbage-as-the-heartbeat-of-its-strategy-to-help-smb-s-with-cash-flow>

¹¹ Their bakery faced a cash crisis. The solution nearly cost them the business. | McClatchy Washington Bureau (mcclatchydc.com). https://www.mcclatchydc.com/news/nation-world/national/article212524749.html#cardLink=row1_card1

¹² Small Business Financing Disclosure Act of 2023 Earns Strong Cross-Industry Support. <http://www.borrowersbillofrights.org/strong-cross-industry-support.html>

credit, especially when they're just starting out. They may not realize that business finance products don't come with the same protections, even if they are used for the same purpose.

APR is not the only metric that is useful to small business owners.¹³ For example, the finance charge, sometimes referred to casually as the total dollar cost, is also extremely helpful. It is required alongside APR in the small business truth in lending laws of California and New York. But dollar cost alone, without APR, does not enable applicants to compare the costs of financing options with financing amount or different expected term lengths. Because dollar cost alone does not consider how much time the borrower is able to use the financing for a given cost they must pay, it can mislead small businesses towards shorter-term financing that they pay more to use, in dollar terms, over equivalent periods of time. Additionally, dollar cost is generally disclosed today already, making legislation requiring it unnecessary.

The problem of relying on dollar cost without APR was described especially well by MFTransparency, which proposed transparency standards in the international microfinance industry:

“Using Total Cost of Credit is like looking at the price of an apartment, but not taking into account how long you will be able to stay! But APR is like looking at a standardized cost per year for that same apartment:

- \$1,000 per day = \$365,000 per year
- \$1,000 per month = \$12,000 per year”¹⁴

Federal Reserve researchers have conducted five studies documenting what has become clear to many working in small business financing today: small businesses are being misled by the lack of transparent disclosure in the absence of transparent disclosure of APR or Estimated APR.¹⁵

In 2015, the Federal Reserve researchers published perhaps the first comprehensive government study specifically of online small business financing disclosures. The Federal Reserve

¹³ For example, the financing charge, sometimes referred to as the total dollar cost, is also helpful.

¹⁴ MicroFinance Transparency, “Total Cost of Credit vs. APR,” 2010. <http://www.mfransparency.org/total-cost-of-credit-vs-apr>

¹⁵ 1) Federal Reserve Bank of Cleveland, “Clicking for Credit: Experiences of Online Lender Applicants from the Small Business Credit Survey,” August 2022. <https://www.clevelandfed.org/publications/cd-reports/2022/sr-20220816-clicking-for-credit-experiences-of-online-lender-applicants-from-sbcs>

2) Board of Governors of the Federal Reserve System, “Uncertain Terms: What Small Business Borrowers Find When Browsing Online Lender Websites,” December 2019. <https://www.federalreserve.gov/publications/files/what-small-business-borrowers-find-when-browsing-online-lender-websites.pdf>

3) Board of Governors of the Federal Reserve System, “Searching for Small Business Credit Online,” Consumer and Community Context, Nov 2019, Vol 1, No 2, <https://www.federalreserve.gov/publications/files/consumer-community-context-201911.pdf>

4) Federal Reserve Board of Governors, “Browsing to Borrow: ‘Mom & Pop’ Small Business Perspectives on Online Lenders,” June 2018. <https://www.federalreserve.gov/publications/files/2018-small-business-lending.pdf>

5) Federal Reserve Bank of Cleveland, “Alternative Lending through the eyes of ‘Mom & Pop’ Small-Business Owners,” August 2015. <https://www.clevelandfed.org/newsroom-and-events/publications/special-reports/sr-20150825-alternative-lending-through-the-eyes-of-mom-and-pop-small-business-owners.aspx>

researchers found that, “Using information typically provided on online alternative lenders’ websites, small businesses find it difficult to compare credit products... Virtually all the focus group participants said they want clearly stated product features and costs and an easier way to compare product offerings. Among their suggestions were interest rates expressed as APRs, straightforward explanation of all fees, and required statements about payment policies, including late fees and prepayment penalties.”¹⁶

Interestingly, the research found that small business owners often did not recognize the extent to which disclosures that lacked APR or Estimated APR were insufficient or misleading. When presenting standard disclosures such without APR or Estimated APR, the Federal Reserve researchers asked the small business owners if anything seemed confusing or if any additional information was needed. Replies included “No, it’s pretty straightforward,” and “I can’t think of anything more I would like to see, really.” However, when asked what rate they would pay, the small business owners did not know, and often appeared not to realize that they did not know. Answers included 28%, 5%, 9.8%, and the highest guess was a “a whopping 30%.” The actual effective APR was 60%. None realized the price was that high.¹⁷

A study conducted by Federal Reserve researchers in 2019 suggests that in the absence of APR or Estimated APR, business owners often misinterpret the “novel pricing metrics” used today by high-price financing companies, and mistakenly select costlier products as a result.¹⁸ Below is an excerpt from that study, demonstrating how misleading pricing metrics are being used today to misguide small business owners into higher-priced financing.

In the table below, the Federal Reserve researchers present three different financing offers of \$50,000, using the disclosure metrics of their respective financing companies.¹⁹ As the table illustrates, in the left column, the Federal Reserve researchers highlight that some high-priced financing companies quote “novel” rates on their website such as a “1.15 factor rate”, “4% fee rate”, and “9% simple interest rate.” These financing companies do not disclose that these rates correspond to approximate Estimated APRs of 70%, 45%, and 46% respectively.

¹⁶ *Id.*, Page 3

¹⁷ *Id.*

¹⁸ Federal Reserve, Dec 2019. (Page 18) <https://www.federalreserve.gov/publications/files/what-small-business-borrowers-find-when-browsing-online-lender-websites.pdf>

¹⁹ *Id.*

| Table 3. Estimated APRs for select online products | | |
|--|---|--------------------------|
| Rate advertised on website | Product details | Estimated APR equivalent |
| 1.15 factor rate | <ul style="list-style-type: none"> Total repayment amount \$59,000 Fees: 2.5% set-up fee; \$50/month administrative fee Term: none (assume repaid in six months) Daily payments (assume steady payments five days/week) | Approximately 70% APR |
| 4% fee rate | <ul style="list-style-type: none"> Total repayment amount \$56,500 Fee rate: 4% (months 1–2), 1.25% (months 3–6) Fees: none Monthly payments Term: six-month term | Approximately 45% APR |
| 9% simple interest | <ul style="list-style-type: none"> Total repayment amount \$54,500 Fees: 3% origination fee Weekly payments Term: six-month term | Approximately 46% APR |

Source: Authors' calculations, based on product descriptions on company websites.

Figure 1: Table from 2019 Federal Reserve Study Illustrating APR Calculations for Commercial Finance Products

The Federal Reserve Researchers found that, without APR, “participants noted that the varying product descriptions provided no common basis for cost comparisons, and several suggested that APR would be helpful for that purpose. In fact, determining the equivalent APR on some products may be challenging [for small business owners], given the non-standard terminology and structure of products offered by online lenders.”²⁰ Moreover, the researchers found that small businesses were misled, perhaps strategically. “When asked to compare a sample short-term loan product with a 9 percent ‘simple interest’ rate to a credit card with a 21.9 percent interest rate, most participants incorrectly guessed the short-term loan to be less expensive.”²¹

These are among the reasons why the need for APR transparency in small business financing has been raised by:

- The Bloomberg News editorial board (“Protect Small Businesses from Predatory Lending”)²²

²⁰ *Id.*

²¹ *Id.*

²² <https://www.bloomberg.com/opinion/articles/2018-11-28/confessions-of-judgment-small-business-and-predatory-lending>

- The Bipartisan Policy Center²³
- The Conference of State Bank Supervisors' Fintech Industry Advisory Panel
- Former Democratic SBA Administrator Karen Mills²⁴ and Former Republican SBA Administrator Christopher Pilkerton
- US Treasury officials²⁵
- Federal Reserve Governor Lael Brainard²⁶
- Federal Reserve Board of Governors Community Advisory Council²⁷
- 80+ industry and nonprofit signatories and endorsers of the Responsible Business Lending Coalition's *Small Business Borrowers Bill of Rights*²⁸
- A dozen member companies of the Innovative Lending Platform Association²⁹
- The National Consumer Law Center³⁰
- Center for Responsible Lending ("These things have the same functional problems as payday loans, except they're worse. There's very manipulative pricing.")³¹
- The New York Department of Financial Services³²
- Numerous news articles, (e.g. McClatchy, "Even Finance Whizzes Say It's Impossible to Compare Online Small Business Loan Options." June 2018)³³

Unfortunately, after the passage of small business truth in lending laws in California and New York, several states have passed disclosure laws without APR. In our view, these bills generally do not meaningfully advance transparency. Instead, these bills have generally served as a way for high-priced financing companies to muddy the water about the need for transparent disclosure of APR. These bills generally require disclosure of information that is already disclosed universally by finance providers, such as the financing amount.

²³ <https://bipartisanpolicy.org/wp-content/uploads/2018/07/Main-Street-Matters-Ideas-for-Improving-Small-Business-Financing.pdf> (they write specifically about the challenges small business owners face comparing the price of sales-based financing to other options: "There can also be confusion around some forms of small business credit, called merchant cash advances. These products are not classified as loans and, as such, are not expressed in terms of an APR, making it challenging to compare with other types of credit products. ")

²⁴ http://www.hbs.edu/faculty/Publication%20Files/17-042_30393d52-3c61-41cb-a78a-ebbe3e040e55.pdf

²⁵ <https://www.treasury.gov/connect/blog/Pages/Opportunities-and-Challenges-in-Online-Marketplace-Lending.aspx>, https://www.progressivepolicy.org/wp-content/uploads/2017/11/PPI_SmallBizCredit_2017.pdf,

²⁶ Board of Governors of the Federal Reserve System, "Remarks by Lael Brainard: Community Banks, Small Business Credit, and Online Lending," 2015. www.federalreserve.gov/newsevents/speech/brainard20150930a.pdf

²⁷ See page 7, <https://www.federalreserve.gov/aboutthefed/files/cac-20181005.pdf>

²⁸ <http://www.borrowersbillofrights.org/signatories.html>

²⁹ <https://innovativelending.org/>

³⁰ See NCLC's letter in Appendix B of the RBLC's comment letter:

http://www.borrowersbillofrights.org/uploads/1/0/0/4/100447618/sb_1235_support_coalition_and_rblc_comment_-_small_business_disclosures_file_no_pro_01-18.pdf

³¹ Their bakery faced a cash crisis. The solution nearly cost them the business. | McClatchy Washington Bureau ([mcclatchydc.com](https://www.mcclatchydc.com/news/nation-world/national/article212524749.html)) <https://www.mcclatchydc.com/news/nation-world/national/article212524749.html>

³² https://www.dfs.ny.gov/docs/reportpub/online_lending_survey_rpt_07112018.pdf

³³ <https://www.mcclatchydc.com/news/nation-world/national/article212491199.html>

In short, any small business disclosure bill that omits APR and Estimated APR will not address the lack of price transparency small businesses face in the financing market today. It would instead rubber-stamp that lack of price transparency.

Disclosure bills that include APR have been supported by small business groups, responsible for-profit lenders, civil rights groups, CDFIs, and small business themselves.³⁴ Disclosure bills without APR have been opposed by all of these groups, and generally supported only by high-price financing companies that do not disclose APR. Naturally, companies that currently mislead business owners to secure high-cost products have a vested interest in preventing these business owners from understanding the true price of their financing, since this could cause them to lose business to lower-cost providers.

2) APR or Estimated APR can be calculated for all types of financing, including merchant cash advances and factoring

The disclosure laws of California and New York demonstrate that APR or Estimated APR can be disclosed for all types of financing, including merchant cash advance, factoring, open and closed end credit, asset-based lending, and so on. While merchant cash advance has been the most controversial (and in our view, perhaps the most in need of improved transparency), some merchant cash advance companies disclosed Estimated APRs prior to the passage of these laws.³⁵ Other merchant cash advance companies have vociferously opposed disclosing the high APRs they charge, with reasons shifting as quickly as they are discredited.

Financing companies are not in the business of disbursing capital with no expectation of when it will be repaid, and at what return. They enter into financing transactions with an expected annualized yield in mind—sometimes described as an internal rate of return (“IRR”). APR is this same metric from the perspective of the customer, and in fact it can be computed using the IRR formula. Merchant cash advance companies generally set the terms they offer in their underwriting to achieve their targeted annualized yield or IRR. The cash advance company’s fee size and split rate is adjusted to achieve the target yield, given the expected rate of repayment. Further, merchant cash advance companies sometimes advertise these targeted annualized yields to investors who provide the financing capital, in documents as legally scrutinized as securities

³⁴ With respect to support of small business themselves, a poll of small business owners commissioned by Small Business Majority found that 79% of small business owners would Strongly Support or Somewhat Support “a law to require certain disclosures for small business loan products, including Annual Percentage Rate (APR), total cost of capital, and all fees and prepayment penalties, in a uniform standard.” Small Business Majority. “State Opinion Polls: Small business owners say government doesn’t understand their concerns, need help with healthcare costs and other challenges.” Poll conducted by Chesapeake Beach Consulting for August 13, 2019.

<https://smallbusinessmajority.org/our-research/entrepreneurship-freelance-economy/small-business-owners-say-government-doesn-t-understand-their-concerns-need-help-healthcare-costs-and-other-challenges>

³⁵ See, e.g. some historical members of the ILPA’s “SMART Box” initiative and some signatories of the Small Business Borrower’s Bill of Rights

solicitations.³⁶ Surely, the small business borrowers paying those prices deserve the same transparency.

Computing the Estimated APRs for these products can be simple for finance professionals once clear guidelines are established. An Estimated APR on a merchant cash advance can be computed in a matter of seconds in Microsoft excel.³⁷ For merchant cash financing companies unable to automate Estimate APR calculations themselves, and whose staff lack excel and finance skills, a leading merchant cash advance company sells software to “efficiently” automate these Estimated APR computations.³⁸

Professor Sepinuck’s memo notes that there has been litigation regarding California’s small business truth in lending framework. A trade association of merchant cash advance companies has sued California, arguing that the requirement to transparently disclose the Estimated APRs they propose to charge small business owners is a violation of the financing company’s free speech rights. Professor Sepinuck’s memo raises that this trade association’s argument that because Estimated APR is computed based on assumptions, it thus “would arguably not require purely factual speech, and thus might violate protections for freedom of speech.”

We believe it is obvious that an estimate can be disclosed factually. For example, it may be a fact that the “Estimated APR” of a specific transaction is 150%, given that it is clearly labeled as an “Estimate” and calculated according to stated assumptions. Financing companies run their financing operations based on these same assumptions. Financing companies quote their expected yields to investors based on these same assumptions. Does an expected yield to earned by a financing company and investors become a free speech concern only once the small business who will be paying that yield finds out about it?

Open-end credit products and factoring financing require different assumption guidelines than merchant cash advance financing to produce standardized Estimated APRs. Nonetheless, computing these Estimated APRs is straightforward once those guidelines are established and clearly stated.

At times, high-cost financing providers have argued that APR is confusing to small business owners because they may not know the underlying algebra to compute it. A Federal Reserve official, speaking personally, refuted that argument succinctly: “When I’m in the grocery store, I don’t need to know how scientists measure how many calories are in a carton of yogurt to know

³⁶ See e.g. CAN Capital’s advertisement to investors of 48% annualized yields, and expected term lengths disclosed in months, to two decimal places. <https://dailyfunder.com/CANCapital-DBRS-securitization.pdf>

³⁷ See, for example, instructional formulas provided here: http://www.borrowersbillofrights.org/uploads/1/0/0/4/100447618/rblc_notice_of_fourth_modifications_to_propose_d_regulations_under_division_9.5_of_the_california_financial_code_pro_01_18.pdf

³⁸ Will Tumulty, CEO of Rapid Finance, described their calculator as giving Industry “the tools they need to help ensure that they can continue to efficiently and compliantly meet the financing needs of their customers.” Businesswire, [Rapid Finance Announces Availability of API Service to Support State-Level Business Lending Disclosure Requirements](https://www.businesswire.com/news/home/20221209005234/en/Rapid-Finance-Announces-Availability-of-API-Service-to-Support-State-Level-Business-Lending-Disclosure-Requirements) (Dec. 9, 2022, 7:01 AM), <https://tinyurl.com/4suct43f>.

that 300 calories is more than 200 calories.” This sort of clear comparison is what a successful disclosure law enables.

3) A successful disclosure bill would cover all commonly used small business financing products

Professor Sepinuck’s memo succinctly sets out the objectives of a small business disclosure framework: “to enhance competition and lead to more informed decision making.” For these goals to be accomplished, the framework must enable comparison between the range of financing options that small business consider. RBLC has opposed bills that exempt merchant cash advance, and bills that target only merchant cash advance.

Small businesses rarely seek out a specific product structure. Most often, they simply need capital, and explore whatever options are available to them. In many cases, the business owner may not understand the differences between products, such as whether their merchant cash advance is a loan or not.³⁹ If a disclosure framework requires APR of some products, but not others, it will prevent effective comparison, disadvantage more-transparent forms of financing, and advantage financing that may charge higher and prices with less transparency. Ultimately, small businesses will pay the price.

The Responsible Business Lending Coalition looks forward to continuing to provide feedback to the Study Committee, and, if warranted, the Drafting Committee on Commercial Finance Disclosure. It is our hope that the results of these efforts align with the principles of the Small Business Borrowers’ Bill of Rights. For any commercial finance disclosure law to meet the goals of enhancing competition and supporting informed decision making, it must include APR disclosure for all forms of financing products. We thank you for your consideration.

Sincerely,

The Responsible Business Lending Coalition (members listed below):

Accion Opportunity Fund
Aspen Institute
BlueVine
Camino Financial
Community Investment Management
LendingClub
Opportunity Finance Network
National Association for Latino Community Asset Builders
National Community Reinvestment Coalition
Small Business Majority

³⁹ See, e.g. [Their bakery faced a cash crisis. The solution nearly cost them the business. | McClatchy Washington Bureau \(mcclatchydc.com\)](https://www.mcclatchydc.com/news/nation-world/national/article212524749.html#cardLink=row1_card1)
https://www.mcclatchydc.com/news/nation-world/national/article212524749.html#cardLink=row1_card1

Appendix A – Several sample disclosure forms intended to comply with California and New York small business truth in lending frameworks

Below are example disclosures forms from California for closed end loans, open end lines of credit, and sales-based financing (i.e. merchant cash advance) respectively. Please note that these are specific examples, and so financing offers with other terms (e.g. different payment periods or prepayment structures) would appear slightly differently.

OFFER SUMMARY
Fixed Term Loan (Closed-End Transaction)

| | | |
|------------------------------|--|--|
| Funding Provided | [\$Amount] | This is how much funding [Lender] will provide. Due to deductions or payments to others, the total funds that will be provided to you directly is \$[Disbursed Amount]. For more information on what amounts will be deducted, please review the attached document “Itemization of Amount Financed”. |
| Annual Percentage Rate (APR) | [APR]% | APR is the cost of your financing expressed as a yearly rate. APR includes the amount and timing of the funding you receive, interest and fees you pay and the payments you make. Your APR is not an interest rate. Your interest rate is [Interest Rate]%. Your APR may be higher than your interest rate because APR incorporates interest costs and other finance charges. |
| Finance Charge | [\$Finance Charge] | This is the dollar cost of your financing. |
| Total Payment Amount | [\$Total Repayment Amount] | This is the total dollar amount of payments you will make during the term of the contract. |
| Payment | [\$Monthly Payment] / month | This is the dollar amount you will be required to pay to [Lender] per month. |
| Term | [Term] years | |
| Prepayment | If you pay off the financing early, you will not need to pay any portion of the finance charge other than unpaid interest accrued (if applicable). | |
| | If you pay off the financing early you will not pay additional fees | |

OFFER SUMMARY

Line of Credit

The calculations below are based on an initial draw of your full Approved Credit Limit of \$75,000 and assume that you will pay off the draw entirely according to the agreed payment schedule, that you miss no payments, and that you do not redraw on this line. Actual costs may differ substantially.

| | | |
|-------------------------------------|--|---|
| Funding Provided | \$73,125.00 (approved credit limit minus \$1,875.00 draw fee) | This is the maximum amount of funding [Lender] may provide. |
| Annual Percentage Rate (APR) | 81.25% | APR is the cost of your financing expressed as a yearly rate. APR includes the amount and timing of the funding you receive, interest and fees you pay and the payments you make. APR is not an interest rate. Your interest rate is 1.36% per week. Your APR may be higher than your interest rate because APR incorporates interest costs and other finance charges. |
| Estimated Finance Charge | \$16,418 | This is the dollar cost of our financing based upon the assumptions described at the top of this disclosure. |
| Estimated Total Payments | \$89,543.48 | This is the total dollar amount of payments you will make during the term of the contract based upon the assumptions described at the top of this disclosure. |
| Average Monthly Cost | \$14,974 | Although this financing does not have monthly payments, this is our calculation of your average monthly cost for comparison purposes. |
| Estimated Payment | Date of payment (02/22/2023): \$3,443.98 Date of payment (03/01/2023): \$3,443.98 Date of payment (03/08/2023): \$3,443.98 Date of payment (03/15/2023): \$3,443.98 Date of payment (03/22/2023): \$3,443.98 Date of payment (03/29/2023): \$3,443.98 Date of payment (04/05/2023): \$3,443.98 Date of payment (04/12/2023): \$3,443.98 Date of payment (04/19/2023): \$3,443.98 Date of payment (04/26/2023): \$3,443.98 Date of payment (05/03/2023): \$3,443.98 Date of payment (05/10/2023): \$3,443.98 Date of payment (05/17/2023): \$3,443.98 Date of payment (05/24/2023): \$3,443.98 Date of payment (05/31/2023): \$3,443.98 Date of payment (06/07/2023): \$3,443.98 Date of payment (06/14/2023): \$3,443.98 Date of payment (06/21/2023): \$3,443.98 Date of payment (06/28/2023): \$3,443.98 Date of payment (07/05/2023): \$3,443.98 Date of payment (07/12/2023): \$3,443.98 Date of payment (07/19/2023): \$3,443.97 Date of payment (07/26/2023): \$3,443.97 Date of payment (08/02/2023): \$3,443.98 Date of payment (08/09/2023): \$3,443.98 Date of payment (08/16/2023): \$3,443.97 The above payment schedule assumes the minimum required payments are made. | |
| Draw Period | Life of the Line of Credit | This is the time period for which you will be able to make draws. Additional draws may be requested up to the maximum amount of the line of credit, in accordance with the requirements of your Financing Agreement. |
| Term | 182 days | |
| Prepayment | If you pay off the financing early, you will not need to pay any portion of the finance charge other than unpaid interest accrued (if applicable). If you pay off the financing early, you will not pay additional fees. | |
| Collateral Requirements | As defined in Section 1.3 of your Financing Agreement. | |
| Avoidable Fees and Charges | Late Interest Fee (the product of the unpaid principal balance of the Draw and 0.3% per day), the Failed Payment Fee (with respect to any ACH debit payment that is dishonored by Client's bank, the greater of (i) 5% of missed payment amount; or (ii) \$35), and the Wire Fee (\$15 per processed wire). | |

Applicable law requires this information to be provided to you to help you make an informed decision. By signing below, you are confirming that you received this information.

Recipient Signature: _____

Date: 02/15/2023

OFFER SUMMARY – PAYMENT RIGHTS SALE DISCLOSURE AGREEMENT

| | | |
|--|---|---|
| Funding Provided | \$ <u>7,500</u> | This is how much funding <u>Bitty Advance 2, LLC</u> will provide. Due to deductions or payments to others, the total funds that will be provided to you directly is \$ <u>6,806</u> . For more information of what amounts will be deducted, please review the attached document “Itemization of Amount Financed.” The amount paid directly to you may change based on required pay-off/pay downs to third-parties, which amounts have not yet been confirmed at the time of this disclosure. |
| Estimated Annual Percentage Rate (APR) | <u>177.74%</u> | APR is the estimated cost of your financing expressed as a yearly rate. APR incorporates the amount and timing of the funding you receive, fees you pay and the payments you make. This calculation assumes your estimated average monthly income through sales of goods and services will be \$ <u>14,453</u> . Since your actual income may vary from our estimate, your effective APR may also vary. APR is not an interest rate. The cost of this financing is based upon fees charged by <u>Bitty Advance 2, LLC</u> rather than interest that accrues over time. |
| Finance Charge | \$ <u>5,139</u> | This is the dollar cost of your financing. |
| Estimated Total Payment Amount | \$ <u>11,945</u> | This is the total dollar amount of payments we estimate you will make under the contract. |
| Estimated Monthly Cost | \$ <u>2,284</u> | Although this financing does not have monthly payments, this is our calculation of your estimated average monthly cost for comparison purposes. |
| Estimated Payment | \$ <u>102</u> / <u>Day</u> | |
| Payment Terms | The contact provides for <u>Daily</u> periodic payments. The specified percentage of <u>35%</u> will be delivered to the buyer <u>Daily</u> . The initial estimated <u>Daily</u> debit amount is intended to represent the Specified percentage of your future receipts. You or the buyer may request a reconciliation to the estimated debit amount to more closely reflect your actual future receipts times the specified percentage. Refer to “Changes to the Estimated Debit Amount” on page 3 in the Payments Rights Purchase and Sale Agreement. | |
| Estimated Term | <u>115</u> days | This is the estimated term of how long it will take to collect amounts due to the buyer. |
| Prepayment | If you pay off the financing faster than required, you still must pay all or a portion of the finance charge, up to \$ <u>5,139</u> based upon our estimates. If you pay off the financing faster than required, you will not be required to pay additional fees. | |

Applicable law requires this information to be provided to you to help you make an informed decision. By signing below, you are confirming that you received this information.

 Recipient’s Signature

 Date