

Honorable Delegates, thank you for the opportunity to testify on this important issue.

I am a Maryland native and resident of Takoma Park, MD. I founded Opportunity Fund, which is the largest non-profit provider of micro and small business loans nationwide. I am also one of the founders of the Responsible Business Lending Coalition.

During my time at Opportunity Fund we saw an increasing number of small businesses coming to us with a new kind of loan called a merchant cash advances they had taken out without understanding how expensive it actually was, because they had never been given an interest rate or an APR. They were unable to afford the daily payments and afraid of losing their businesses. We decided to find out what was going on. We analyzed 150 of the financing contracts they had with merchant cash advance providers. By looking at the contracts and their historical revenues, we were able to calculate very accurate estimates of the APRs on these small business credit products.

We found that the average APR on these 150 transactions was 94%. The average APR the MCAs charged Black business owners was higher, at 128%. The highest APR we found was an astonishing 358%! It was easy to compute the APRs. We also had enough data to pretty accurately calculate how much income the business owners had available to pay debt service after paying all their other bills. We found their monthly payments on these loans were on average nearly double what the business owners could afford—at 178%! Hispanic business owners were made to pay over 400% of the actual income they had available. These loans are often not sustainable, and they are putting people out of business.

When these finance companies tell you it is impossible for them to calculate an estimated APR at the time the loan is made, it is not true. They are choosing the amount they advance to a customer based on that customer's historic revenues—either by looking at their bank statements or their credit and debit card sales. They know exactly what percentage return they are expecting from that customer. The business owner deserves to know as well!