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Legislative District 15
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Environment and Transportation Committee

Chair

Motor Vehicle and Transportation
Subcommittee



The Maryland House of Delegates
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THE MARYLAND HOUSE OF DELEGATES

ANNAPOLIS, MARYLAND 21401

Delegate C. T. Wilson
Chairman, House Economic Matters Committee
House Office Building – Room 231
Annapolis, MD 21401

Mr. Chairman,

I am writing in favor of HB 574 – Commercial Financing – Small Business Truth in Lending Act.

Predatory small business loans are on the rise in the United States as well as Maryland. Predatory loans describe any lending practice that imposes unfair and deceptive loan terms on borrowers. Lenders are offering products with annual percentage rates (APRs) in the high double or triple digits and with monthly payment structures that are often double what the businesses can afford to pay. These lenders often use high-pressure collection tactics, used solely to scare or bully, when borrowers fall behind on their payments.¹

Predatory lending disproportionately impacts low-income borrowers, due to existing wealth gaps. Harmful loans are often disguised as “cash advances” or “future receivables purchase and sale agreements”.² There are laws in place to protect individual consumers from predatory lending. Currently, as small businesses often require short-term, flexible financing, small businesses are not afforded the same protections as consumers, such as transparency and reporting requirements, when applying for and repaying loans.³

HB 574 will establish a regulatory framework for lenders that provide commercial loans to small businesses; specifically establishing requirements for disclosures, APR calculations, repayment terms, and extensions of special offers. The bill generally requires APR to be expressed as a yearly rate—including all associated fees and charges—calculated in accordance with the federal

¹ Klein, J. (2022, February 17). *Protecting Small Businesses from Predatory Lending*. The Aspen Institute. <https://www.aspeninstitute.org/blog-posts/we-protect-individuals-from-predatory-lending-practices-why-not-small-businesses-too/>

² Hinchcliffe, K. (2020, December 21). *Protecting small business clients from predatory loans*. Journal of Accountancy. <https://www.journalofaccountancy.com/newsletters/2020/dec/protecting-small-business-clients-predatory-loans.html>

³ Id., at 1

Truth in Lending Act.⁴ HB 574 also establishes disclosure stipulations that apply to each type of financing, allows for regulated pay-offs, and requires that a recipient must sign each applicable disclosure before receiving a loan.

To address these issues, in 2023 New York signed the Small Business Truth in Lending Act into law to protect small business borrowers from predatory lending in the state.⁵ California has also signed into law the Truth in Lending Act to protect small business borrowers from predatory lending.⁶ Both the New York and California regulations require sales-based financing providers to disclose their products' APR and other costs to borrowers.⁷

This framework falls under the regulatory and enforcement authority of the Office of the Commissioner of Financial Regulation (OFR). HB 574 will positively impact small businesses in Maryland by implementing transparency requirements and consistent standards for commercial lenders to ensure equity and accountability. By requiring lenders to follow the same guidelines and provide consistent APR, borrowers can better make comparisons between loan offers to decide which loan undertaking is best for them.

HB 574 will ensure that every small business has the access they deserve to responsible, affordable capital to help their businesses thrive.⁸

⁴ See 15 U.S.C. §§ 1601-1667f, as amended

⁵ Office of Representative Nydia M. Velazquez. (2021, November 18). *Velázquez and Menendez Introduce Bicameral Bill to Stop Predatory Small Business Loans*. <https://velazquez.house.gov/media-center/press-releases/vel-zquez-and-menendez-introduce-bicameral-bill-stop-predatory-small>

⁶ University of California Berkeley School of Law. (2023, December 13). *Victory! Court Upholds California Regulations Protecting Small Businesses from Predatory Lending | Center for Consumer Law & Economic Justice*. Center for Consumer Law & Economic Justice. <https://consumerlaw.berkeley.edu/news/victory-court-upholds-california-regulations-protecting-small-businesses-predatory-lending>

⁷ *Id.*, at 5

⁸ See also Responsible Business Lending Coalition. (n.d.). *Policy Advocacy - RESPONSIBLE BUSINESS LENDING COALITION*. responsible business lending coalition. <http://www.borrowersbillofrights.org/policyadvocacy.html>; Mider, Z. R., & Faux, Z. (2018, November 20). *The Predatory Lending Machine Crushing Small Businesses Across America*. Bloomberg.com. <https://www.bloomberg.com/graphics/2018-confessions-of-judgment/?srnd=confessions-of-judgment>