



THE MARYLAND HOUSE OF DELEGATES ANNAPOLIS, MARYLAND 21401

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

I am writing in favor of HB 693 – Commercial Financing – Small Business Truth in Lending Act.

Predatory small business loans are on a rise across the United States, including in Maryland. Predatory lending is a term used to describe a wide range of unfair and deceptive financial practices.¹ These practices often include offering loans with high interest rates, excessive fees, and terms and conditions that are extremely difficult to meet.² Lenders frequently use high-pressure collection tactics, used solely to scare or bully, when borrowers fall behind on their payments.³ Many people become enticed with fast loan approvals and overlook loan terms, leaving them in a cycle of debt.

HB 693 will establish a regulatory framework for lenders that provide commercial loans to small businesses; specifically establishing requirements for disclosures, annual percentage rate (APR) calculations, repayment terms, and extensions of special offers. Generally, this bill requires an APR to be expressed as a yearly rate—including all fees and finance charges—in accordance with the federal Truth in Lending Act.⁴

Additionally, HB 693 establishes:

- Disclosure requirements that apply to each type of financing
- Allows for regulated pay-offs

¹ *Predatory lending*. NACA. (n.d.). <https://www.consumeradvocates.org/for-consumers/predatory-lending/>

² *Small business series: How to avoid predatory loans*. Center For Rural Affairs - Building a Better Rural Future. (2024, July 24).

<https://www.cfra.org/blog/small-business-series-how-avoid-predatory-loans#:~:text=The%20term%20predatory%20lending%20refers.and%20unrealistic%20terms%20and%20conditions.>

³ 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/>

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

- Requires that a recipient must sign each applicable disclosure before the provider allows the recipient to proceed with the application

Predatory lending disproportionately impacts low-income borrowers, due to existing wealth gaps. Harmful loans are often disguised as “cash advances” or “future receivable purchase and sale agreements”.⁵ While there are laws in place to protect individual consumers from predatory lending, the same protections are not provided to small businesses. This includes transparency and reporting requirements when applying for and repaying loans.⁶

An increasing number of states, including California, Utah, Virginia, and New York have adopted commercial financial disclosure laws that are modeled after the Truth in Lending Act and Regulation Z.⁷ Enacted in 1968, the Truth in Lending Act was created to disclose loan terms and costs and provide additional consumer protections.⁸ These regulations require clear and concise disclosures of APRs, fees, loan terms, payment amounts, prepayment penalties, etc.

This framework falls under the regulatory and enforcement authority of the Office of the Commissioner of Financial Regulation (OFR). While the OFR currently has the ability to investigate financial transactions to determine any violations, HB 693 would allow them to adopt regulations that establish consistent standards and transparency requirements in lending. 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 693 will ensure that every small business has the access they deserve to responsible, affordable capital capital to help their business thrive.⁹

Thank you for your consideration, I urge a favorable report on HB 693.

Respectfully,

⁵ 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>

⁶ Id., at 3

⁷ Hare, J., & Dubin, A. (n.d.). *State laws requiring commercial financing providers to provide disclosures and to register take effect*. DLA Piper. <https://www.dlapiper.com/en/insights/publications/2023/01/state-laws-requiring-commercial-financing-providers-to-provide-disclosures>

⁸ Congressional Research Service . (2024, September 19). *Overview of the truth in lending act - CRS reports*. Overview of the Truth in Lending Act. <https://crsreports.congress.gov/product/pdf/IF/IF12769>

⁹ 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>

A handwritten signature in black ink, appearing to read "David Fraser-Hidalgo". The signature is fluid and cursive, with a large, stylized "D" and "F".

Delegate David Fraser-Hidalgo