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Maryland General Assembly  
Legislative Services Building  
90 State Circle  
Annapolis, MD 21401

Jamie L. Robinson  
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To the Distinguished Members of the Maryland General Assembly:

My name is Jamie Robinson, and I am a small business owner. While not a resident of Maryland, I did serve years ago in the Maryland Air National Guard as a logistics Airman in the 175th Logistics Readiness Squadron (when A-10s and C-130Js were flying there). Then, moved to Joint Base Andrews joining the 459th Aeromedical Evacuation Squadron. Many Citizen Airmen are small business owners or work for small businesses, making H.B. 1007 an important protective measure for those seeking capital who choose military service while also fostering economic growth in their local communities. Whether to seek commercial financing is an important decision for small businesses and, for some, timing is everything.

In January 2020, I left my full-time job to focus on my small management consulting firm one month before the pandemic shut everything down and spent more than a year trying to take care of myself, take care of family, and save my business while the country recovered. At the tail end of 2021 I landed my first client with a Fortune 100 company and things seemed to be looking up. We had revenue, we were growing, and building out our small team. As artificial intelligence (AI) began gaining traction in corporate settings we decided to pivot and invest in developing a software solution that would open up new revenue streams as companies explored using AI to solve moderately complex problems, the sweet spot for small consulting firms with limited resources. We decided to seek capital in 2023, but the banking industry was recovering from the failures of Silicon Valley Bank, Signature Bank of New York, and others, which made access to capital challenging. A broker offered what I would later learn to be a merchant cash advance (MCA), which seemed great; we would get capital and just need to continue growing and the cost would not be a burden for us. That was not the case...at all. My business ultimately failed and the road to business failure was painful, lonely, and overwhelming. As I continue efforts to recover the funds improperly collected by predatory merchant cash advance providers, it has become my mission to support any effort to bring greater transparency to this industry. A disclosure law is a great step in that direction, and I hope the following context helps the

Maryland General Assembly understand the small business owner's perspective and why passing this bill would add needed protections for Maryland's small business community.

While predatory MCAs are labeled sales, the agreements are rarely able to create a contractual system capable of administering the assets allegedly sold. In effect, they become sales-based financing products, not true sales. As a sale, these products have four fatal flaws that disclosure laws help surface at formation or when the disclosure is not aligned with actual performance:

- **Distorted Pricing:** Predatory MCAs inflate the purchase price to inflate the discount to inflate the amount of receivables purchased.
- **Conflicting Obligations:** The provider has no mechanism to connect the estimated payment to the underlying payment obligation, effectively creating two independent payment obligations: (a) payment obligations from accounts receivables purchased, and (b) estimated payments from the recipient.
- **Illusory Reconciliation:** The provider uses cash inflows as a proxy for settled payments, which allows liabilities to be treated as earned revenue, and places conditions on reconciliation that create conflicts with the terms governing the purchased receivable.
- **Deceptive Product Label:** The product is sold as a sale, performed as financing contingent on sales, and enforced as a fixed debt obligation.

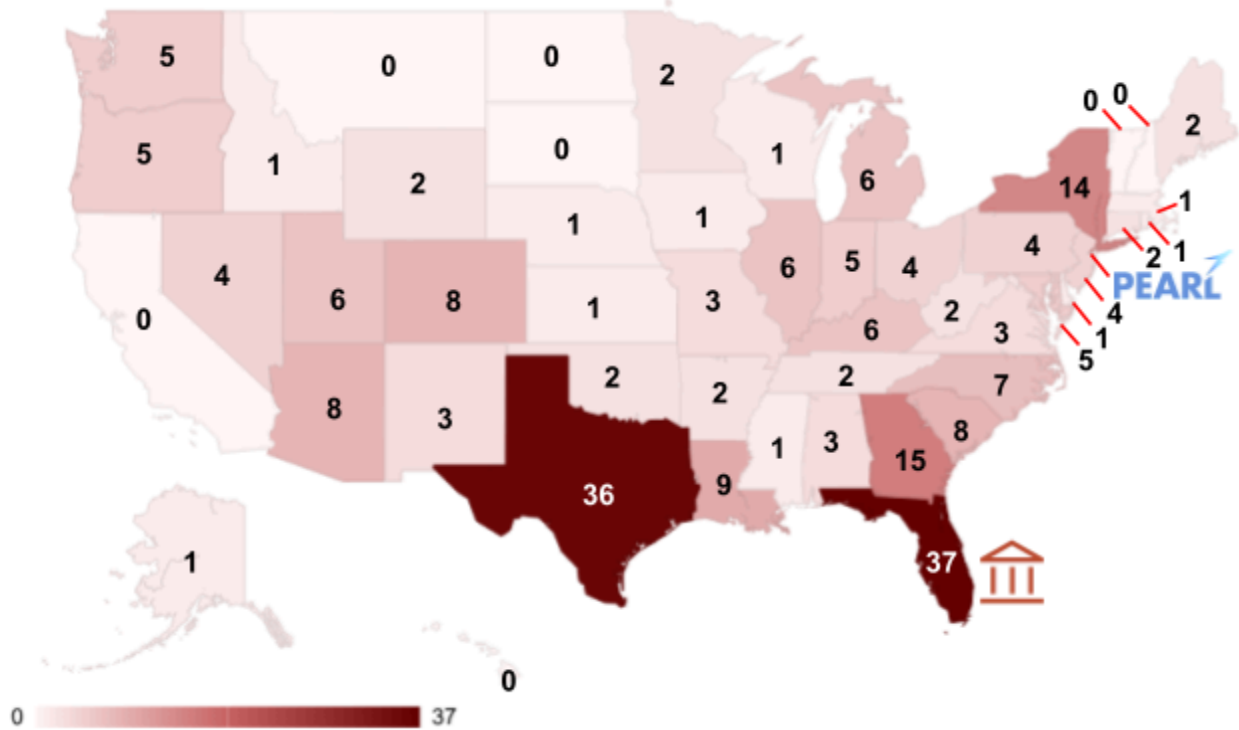
These flaws allow the provider to effectively measure the wrong thing and make themselves the sole arbiter of a reconciliation they structurally cannot perform accurately. The recipient therefore carries dual risk: (a) honoring their customer obligations under the original sale; and, (b) satisfying a payment covenant being monitored by a provider with fundamentally incomplete information and contractual discretion to decide outcomes.

By providing a statutory definition in a disclosure law, small business owners considering sales-based financing understand what it should be. That clarity is crucial not only at formation, but when disputes arise. Disputes are frequent and devastating for small businesses because they lack protections in the agreements and the resources to properly litigate a dispute. And, the structural flaws inevitably produce the litigation patterns highlighted below that suggest predatory providers treat the breach of a flawed payment covenant (recipient's estimated payments) as a default on a dormant payment obligation (accounts receivables).

Small businesses are already in a weakened financial position when fending off provider claims. After reviewing over 1,000 legal filings in 242 cases filed by a single provider headquartered in New Jersey using New York courts to take action against recipients in 43 states, including Maryland, the patterns were concerning:

- 100% of cases were litigated in New York
- 48% of recipients lost or had no counsel
- 0% of cases proceeded to trial
- 0% of the provider’s claims demonstrated the account payment obligation was at risk
- 100% of judgments/settlements converted a sale of receivables into a debt obligation for the recipient.

Figure 1. Pearl Delta Funding lawsuits (2020-2025) by merchant state (Source: NY eCourts System)



A disclosure law solves a huge problem for Maryland’s merchants, transparency. This bill, if enacted, creates a statutory definition for the product and what MCA agreements must disclose, giving Maryland merchants, guarantors, and courts a clean standard to hold the character of the MCA product to. I urge the Maryland General Assembly to support passage of H.B. 1007.

Sincerely,

Jamie L. Robinson  
Small Business Owner