

Testimony of Eric Weaver, Senior Advisor, City First Enterprises and Founder, Accion Opportunity Fund
HB1007 Commercial Financing- Small Business Truth in Lending Act

Position: For

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

I am a Maryland native and resident of Takoma Park, MD. As the founder of Accion Opportunity Fund, which is the largest non-profit provider of microbusiness loans nationwide, I have over 25 years of experience lending to small businesses, especially those owned by low-income entrepreneurs and entrepreneurs of color. 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 advance 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 not difficult 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 obligations on these loans were on average nearly double what the business owners could afford—at 178%! Hispanic business owners were expected 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.

This bill does not ban merchant cash advances, nor does it cap the interest rates that can be charged. It merely requires the lenders to use a commonly accepted calculation—annualized percentage rate—to disclose pricing.

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 already doing it in New York and California, where very similar laws have been in effect for some time now. These lenders know exactly what percentage return they are expecting from their customer. The business owners deserve to know as well!