

February 27, 2026

Re: Letter of Support with Amendment

Dear Chair, Vice-Chair, and Members of the Committee,

The Office of Financial Regulation (OFR) is Maryland's consumer financial protection agency. OFR provides this testimony in support with amendment of Senate Bill 881, Commercial Financing - Small Business Truth in Lending Act.

Bill Overview

SB 881 establishes a new regulatory framework for "commercial financing" transactions, which will be administered and enforced by the OFR. This framework mandates requirements for disclosures, Annual Percentage Rate (APR) calculations, repayment terms, and special offers. The bill also imposes several obligations on providers of commercial financing:

- **Review and Notification:** Providers must notify the OFR of their intended APR calculation method for each transaction, allowing the OFR to assess its reasonableness.
- **Annual Reporting:** By January 1st annually, providers must report the estimated APRs given to participants and the actual APRs of all completed transactions to the OFR. The Commissioner may request additional information.
- **Regulation Adoption:** The OFR is required to adopt regulations substantially similar to the New York State Department of Financial Services' commercial financing regulations (23 NYCRR 600) issued in February 2023.

Violations of the bill's mandates are subject to enforcement actions and civil penalties.

OFR's Operational and Fiscal Concerns

As drafted, the proposed legislation presents significant fiscal and operational challenges for the OFR because it mandates new regulatory activities without providing a dedicated funding mechanism. This will force the OFR to use the Non-Depository Special Fund, effectively requiring businesses regulated under existing statutes to subsidize the regulation of a new industry.

To comply with the bill, the OFR requires substantial personnel and technical resources for the following:

- **Regulatory Development:** Drafting extensive new regulations, mirroring the fifty-two pages issued by the NYDFS, which will heavily strain the OFR's limited legal staff (only two advice counsel).
- **Supervision:** Overseeing a new population of entities in complex commercial lending. This sector differs materially from the OFR's current focus (banks, credit unions, trust companies and other non-depository entities), and the agency lacks staff with relevant expertise outside of its already fully occupied bank examiners.
- **Technological Infrastructure:** Developing, implementing, and maintaining a new electronic system for lenders to submit mandatory yearly reports. Unlike California's DFPI, the OFR does not receive free IT services. The existing Nationwide Multistate Licensing System (NMLS) cannot be leveraged as the bill does not require licensing or registration. Labor's Office of Information Technology estimates the development cost for a new application to be \$254,868, with annual maintenance costs of \$25,000. No funding is appropriated in the pending FY 2027 budget, and the bill provides none. Without funding, the OFR would need to increase the annual assessment of licensed businesses. OIT estimates up to one year for application development.
- **Enforcement:** Handling borrower complaints and conducting potential enforcement activities under the new authority, where entities are neither licensed nor registered.

Given current staffing and existing obligations, the OFR cannot implement the bill with its present resources and anticipates needing to hire a minimum of one full-time employee (a Financial Services Examiner – Lead; Grade 19/Step 9).

The legislation does not align with OFR's established funding model, where regulated entities cover the cost of their regulation. The bill significantly increases OFR's expenses without a corresponding increase in revenue, as it contains no provisions for licensing, registration, or an industry assessment. Furthermore, any collected penalties are statutorily required to be transferred to the General Fund, offering no financial relief to the OFR's budget.

Suggested Amendments

The OFR has proposed the following amendments to the Sponsor to achieve the bill's goals while addressing operational concerns:

- Establish a first-in-the-nation, simplified licensing regime using the NMLS to track commercial financing entities and the required reports, thereby eliminating the need for a costly new application development.
- Align this licensing with standard OFR processes, though one new staff member will still be needed.

- Ensure the work associated with the bill is adequately funded.
- Align the licensing fee with those of consumer lenders.
- Allow for a regulatory process consistent with OFR's existing regulatory regimes.

Conclusion

The Office of Financial Regulation recognizes that Senate Bill 881 will enable small businesses to utilize sales-based financing products in a transparent and affordable manner. Therefore, the OFR respectfully requests a **favorable Committee Report on the bill with OFR's proposed Amendments** that would ensure the financing entities will be licensed and the mandate is adequately funded.