

Banking Committee JOINT FAVORABLE REPORT

Bill No.: SB-1032

Title: AN ACT REQUIRING CERTAIN FINANCING DISCLOSURES.

Vote Date: 3/7/2023

Vote Action: Joint Favorable Substitute

PH Date: 2/23/2023

File No.:

***Disclaimer:** The following JOINT FAVORABLE Report is prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and does not represent the intent of the General Assembly or either chamber thereof for any purpose.*

SPONSORS OF BILL:

Banking Committee.

REASONS FOR BILL:

Most small businesses in the U.S. are sole proprietors, not corporations with comptrollers or chief financial officers. They do not have a financial expert to guide them with financial advice. These small business owners need help navigating the world of financing.

Substitute language:

Limits requirements to sales-based financing.

RESPONSE FROM ADMINISTRATION/AGENCY:

None expressed.

NATURE AND SOURCES OF SUPPORT:

[The Responsible Business Lending Coalition \(RBLC\)](#) submitted written testimony in support of the bill stating that "As introduced, SB 1032 would bring sunshine to the commercial financing marketplace by requiring all providers to disclose APR for all small business loan products. APR is the only established metric that enables informed comparisons of the cost of capital over time and between products of different dollar amounts and term lengths. APR is the time-tested rate that people know and expect because it is the legally required standard for mortgages, auto loans, credit cards, student loans, and personal loans, including short-term loans."

"When small businesses currently shop for financing, they are not able to make an apples-to-apples comparison across financing providers and products. Without standardization of

disclosure requirements across lenders, small businesses are more likely to choose higher-cost products."

[Ryan Metcalf, Head of Public Affairs, Funding Circle US](#) submitted written testimony in support of the bill.

"One of the key provisions of SB 1032 is the requirement for APR disclosure across all financing products for small businesses. This is an important step towards ensuring that small business owners have access to clear and consistent information about the cost of borrowing. By requiring APR disclosure, businesses can more easily compare financing options and make informed decisions about the best way to finance their operations."

[Louis Caditz-Peck, Senior Fellow, National Community Reinvestment Coalition](#) submitted written testimony in support of the bill "which will bring commonsense price transparency to small business financing."

"SB 1032 does not outlaw any products or restrict access to capital in any way. It simply requires price transparency, including the disclosure of the APR."

"(The views in this letter are my own, not these of the CFPB.)"

[Awesta Sarkash, Public Policy Director, Small Business Majority](#) submitted testimony in support.

"This legislation, modeled after successful Small Business Truth in Lending laws enacted in California and New York, would provide commonsense protections for small business borrowers in Connecticut. The bill is applicable to financing products below \$2.5 million because smaller, Main Street businesses are the ones being misled by the lack of transparency today. This legislation provides transparency about the lending product, tells the online lender how to calculate the Annual Percentage Rate (APR) and what to disclose to the borrower."

"This legislation is needed because small businesses in Connecticut could unknowingly agree to higher-cost loan terms because predatory lenders can legally offer opaque terms through deceptive practices."

NATURE AND SOURCES OF OPPOSITION:

[Tom Mongellow, Art Corey and Fritz Conway, Connecticut Bankers Association](#) have concerns about the bill as drafted.

"Commercial financing broker definition. This year's version of the bill introduces a new "commercial financing broker" definition. We suggest clarifying the definition to exempt a party that presents a financing offer on behalf of an exempt party, like a bank or its affiliate."

"Application of the \$500,000 exemption to open-end financing. The "Open-end financing" definition refers to multiple extensions of credit, but then goes on to reference "repeated transactions," rather than "repeated extensions of credit" or "repeated advances." When this is viewed together with the exemption for "an individual...transaction in an amount over" \$250,000 in the "Provider" definition, it suggests that every advance under the open-end

financing must be greater than \$250,000 for the exemption to apply. We do not believe this was intended and request a clarification that the \$250,000 threshold apply to the amount of the commercial financing offer, not the amount of individual advances under any particular commercial financing."

"Timing. The statute is proposed to take effect January 1, 2024. In cases where banks are involved in arrangements that are not exempt, we anticipate that the modifications to agreements, processes, procedures and technology systems necessitated by the bill and the rules and regulations to be issued by the Banking Commissioner will take significant time and effort, as will the effort to communicate with and explain the changes to commercial customers. We are concerned that a January 1, 2024 effective date does not allow sufficient time after the issuance of the anticipated regulations to complete the work needed to practically implement such regulations and the statute."

[Miin Chen, COO, Siena Lending Group](#) submitted written testimony opposing the bill stating that "there is a lot that can occur which makes an APR concept that much more difficult to fit into our business model."

"Calculation of an APR is used for generally something with a fixed outstanding - mortgage, car loans - not for a revolving line of credit. You would need to need know the interest dollars, which we can calculate, but that needs to be based off a loan amount that, as I just outlined, can vary drastically, even a budgeted loan amount will be off and misrepresent the calculation based on factors that are out of the lender's and client's control. Our clients' business varies and at times there may be amendment necessary to aid our clients in their financing need based on their ever-changing competitive landscape. These amendments come with terms and some of those terms include different fees for different levels of risks that we (Siena) is assuming - these are things that we cannot know at the onset of a loan document to be able to fairly represent an APR concept into our disclosures."

[Stephen Denis, Executive Director, Small Business Finance Association](#) submitted testimony opposing the bill as drafted.

"The SBFA is concerned that the present version of this bill would create confusion for small businesses who are shopping for financing by requiring the disclosure of various metrics that are widely unknown or misleading to most business owners."

[Deveron Gibbons, Executive Director, Revenue Based Finance Coalition](#) submitted written testimony opposing the bill.

"The RBFC respectfully submits the attached documents for the Banking Committee's consideration:

"The Clear Cost of Capital: An Analysis of Revenue Based Financing Transactions. Senate Bill 1032 requires providers of commercial financing to provide disclosures including an "APR" disclosure. "The Clear Cost of Capital" explains why revenue based financing is an important option for small and medium-sized businesses and that "APR" is not a useful disclosure for revenue based financing transactions.

"Virginia HB 1027 (Approved April 11, 2022). In 2022, the Virginia Legislature considered, and rejected, requiring an "APR" disclosure for revenue based financing. Virginia instead enacted a law that requires the following disclosures:

- The total amount of the financing, and the disbursement amount, if different from the financing amount, after any fees deducted or withheld at disbursement.
- The finance charge.
- The total repayment amount, which is the disbursement amount plus the finance charge.
- The estimated number of payments, which is the number of payments expected, based on the projected sales volume, to equal the total repayment amount.
- The payment amounts, based on the projected sales volume (i) for payment amounts that are fixed, the payment amounts, frequency, and method or (ii) for payment amounts that are variable, a payment schedule or a description of the method used to calculate the amounts and frequency of payments and payment method.
- A description of all other potential fees and charges not included in the finance charge, including draw fees, late payment fees, returned payment fees, and prepayment fees or penalties.
- A description of prepayment policies including whether the recipient will be required to pay any additional fees, penalties, or other amounts not already included in the finance charge, or if the recipient will receive any discount to the finance charge.
- A description of collateral requirements or security interests, if any.
- A statement of whether the provider will pay compensation directly to a broker in connection with the specific offer of sales-based financing and the amount of compensation."

[Richard D. Gumbrecht, Chief Executive Officer, Secured Finance Network](#) submitted written testimony opposing the bill.

[Leigh J. Maltby, Associate Director, Americans for Patient Access](#) submitted written testimony opposing the bill.

[Alexis Shapiro, General Counsel, Forward Financing LLC](#) submitted written testimony opposing the bill.

Reported by: Jeanie Phillips, Clerk

Date: March 10, 2023