



May 17, 2023

State of North Carolina House of Representatives  
Committee on Banking  
Legislative Building  
16 West Jones Street  
Raleigh, NC 27601

RE: HB 662: Support for Small Business Truth in Financing Act

Dear Chair Winslow, Vice Chair Carney, and Members of the North Carolina House Banking Committee:

The Responsible Business Lending Coalition (RBLC) writes in strong support of *HB 662, the Small Business Truth in Financing Act*, as introduced by Representative Jennifer Balkcom. The Responsible Business Lending Coalition is a leading cross-sector voice on small business financial protection. The coalition includes for-profit fintech lenders, nonprofit community development financial institutions (CDFIs), and organizations representing small businesses themselves, who all share a commitment to expanding access to responsible, affordable capital that will help small businesses thrive, not force them out of business.

North Carolina's nearly one million small businesses enrich their neighborhoods and employ nearly half of the state's private sector workforce. Unfortunately, **because of loopholes in current federal laws, financing companies that are generally based outside of North Carolina are forcing businesses to close their doors by trapping them in harmful cycles of debt.** Providers offering commercial credit can legally mislead business owners to take debt with annual percentage rates (APRs) of as high as 350% or more, without ever disclosing these rates to them.<sup>1</sup> These providers are draining the wealth and job opportunities from North Carolina.

Capital is the lifeblood of a growing business, but accessing it is a constant challenge. Entrepreneurs must be creative in their search for financing options, especially when they're starting out. **Entrepreneurs often rely on personal finance products, such as credit cards and home equity lines of credit, to fund their ventures. They may not realize that commercial finance products don't come with the same protections, even if they are used for the same purpose.** Research from the Federal Reserve finds that without standardized financing disclosure requirements including APRs, small businesses are often misguided into choosing higher-cost financing. Federal Reserve researchers found that, **when asked what metrics were most important in understanding the cost of a financing product, business owners most often cited APR, repayment amount, frequency of payments, and prepayment penalties.** Small business owners also told the Federal Reserve

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<sup>1</sup> Accion Opportunity Fund, May 2016. Unaffordable and Unsustainable: New Business Lending  
<https://aofund.org/news/unaffordable-and-unsustainable-new-business-lending/>

researchers that financing companies today seem to be trying to “hide” or “conceal” their true costs by using less familiar pricing metrics (for example, “simple interest” or “factor rate”) versus the more-familiar APR.<sup>2</sup>

*HB 662* would ensure that North Carolina small business owners seeking capital have access to clear, honest information about pricing, including APR, so they can compare financial products and choose the best option for their business. **APR is the only established metric that enables informed price comparisons between products of different dollar amounts, term lengths, and combinations of fees and interest charges.** It is a 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 since the federal Truth in Lending Act was passed in 1967.

When entering into an agreement, business owners expect their financing partners to be honest with them about important pricing and terms. **Finance providers have access to all the information they need to calculate the annual percentage rate (APR) or estimated APR for business financing products, yet many of them refuse to disclose this information.** In fact, many of the same business financing providers that claim they can’t disclose APRs to their small business borrowers already disclose annualized yields (essentially the same metric) to their financing investors.

APR can be simple to calculate regardless of a financing product’s structure, fees, or term length. That’s why companies providing a range of innovative financing products for consumers have been disclosing APR or estimated APR for decades as required under the federal Truth in Lending Act. Many commercial financing providers across the country, including members of this Coalition and current signatories of the Small Business Borrowers’ Bill of Rights, already disclose APR. ***HB 662* would create the price disclosure needed to support a healthy business financing market in North Carolina that rewards capital providers for offering the most innovative and affordable products, rather than for devising the most misleading pricing information.**

We urge you to stand with North Carolina’s small business owners by passing *HB 662*. We are happy to serve as a resource as you move forward.

Sincerely,

The Responsible Business Lending Coalition



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<sup>2</sup> Barbara J. Lipman, Federal Reserve Board and Ann Marie Wiersch, Federal Reserve Bank of Cleveland. Browsing to Borrow: “Mom & Pop” Small Business Perspectives on Online Lenders. June 2018 <https://www.federalreserve.gov/publications/files/2018-small-business-lending.pdf>