



February 6, 2023

Senator Justin Brown
State of Missouri
201 W Capitol Ave – Room 420
Jefferson City, MO 65101

RE: Opposition to SB187 (Commercial Financing Disclosure Law)

Dear Senator Brown:

The Responsible Business Lending Coalition (RBLC) writes today in opposition to the *Commercial Financial Disclosure Law* (SB 187) you recently introduced. The bill in its current form does not require a provider to disclose annual percentage rate (APR) or estimated APR. We urge you to amend the bill to ensure that small business owners seeking financing are protected and have access to the information they need to compare products and make informed decisions.

The undersigned organizations are members of the RBLC, a coalition that includes nonprofit and for-profit lenders, FinTechs, CDFIs, investors, and small business advocates who share a commitment to innovations in small business lending that increase access to responsible small business financing and work to combat the rise of non-transparent lending practices.

The [Small Business Borrowers' Bill of Rights](#) (BBoR), developed by the RBLC, represents the first cross-sector consensus on standards of responsible lending to small businesses. Over 100 small business lenders, brokers, and lead generators, and advocacy organizations endorsed these standards. **The first right identified in the BBoR is the Right to Transparent Pricing and Terms, which calls for small business financing providers to clearly disclose the following to any prospective small business borrowers:**

1. Loan amount, and the total amount provided after deducting fees or charges
2. Annual percentage rate (APR) or estimated APR
3. Payment amount and frequency, including the actual or estimated total payment amount per month if payment frequency is other than monthly
4. Term or estimated term
5. All upfront and scheduled charges
6. Collateral requirements
7. Any prepayment charges

Disclosure of these seven key terms, particularly the APR or estimated APR, is critical to ensuring that a small business can compare different financing products available to make an informed decision. While



SB 187 as introduced calls for the disclosure of some key terms, **the bill does not require a provider to clearly disclose the term length or estimated term length. The bill also does not require a provider to disclose the APR or estimated APR which is essential.**

Currently, the Federal Truth in Lending law requires that consumer creditors disclose vital financing information, including APR, in a clear and comparable format. 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. **APR is key because it is the only established metric that enables informed comparisons between products of different dollar amounts and term lengths over a single, standard unit of time: the year.** [Research](#) indicates that too many small businesses are paying APRs as high as 94%, and or even 350%, without these high rates being properly disclosed. No such standard currently exists to protect millions of entrepreneurs.

APR disclosure also allows small business borrowers to make apples-to-apples comparisons across all financing providers and products. Without standardized disclosures from all financing providers, small business owners are more likely to choose higher-cost products. One [research study](#) found that when asked to compare a sample short-term loan product with a 9% “simple interest” rate to a credit card with a 21.9% interest rate, most participants in the study incorrectly guessed the short-term loan to be less expensive. What’s more, a [Federal Reserve study](#) demonstrated small businesses, particularly historically underserved Black and Hispanic-owned businesses, are more likely to use “high-cost” and “non-transparent” financing, referring specifically to merchant cash advances (MCAs) and factoring products. When small business owners unknowingly take out expensive financing, they can become trapped in cycles of debt that can lead to financial ruin or even closure of their business. Transparency in lending to protect small businesses is essential, but this legislation does not achieve that without APR disclosure.

The consumer financing marketplace remains a vibrant, healthy, and competitive marketplace over fifty years after implementation of the consumer Truth-in-Lending Act. Many commercial financing providers across the country already disclose APR without disclosure impeding their operations. Without the ability to make fair comparisons across products and providers, fair competition would be stifled, and misleading providers gain an advantage. Once comprehensive disclosures are implemented, the only reason that a provider would stop operating is as a natural consequence of market competition.

As currently written, the bill does not empower small business borrowers with clear information about the rates and terms of their financing. The bill would reinforce the status quo of inadequate disclosures and small business protections, as well as suppress healthy competition in the commercial financing marketplace. We urge you to amend the bill to include APR disclosure and the estimated term length for the benefit of small business owners in Missouri.

Sincerely,

The Responsible Business Lending Coalition

