June 20, 2018

The Honorable Monique Limón The Honorable Phillip Chen

Chair, Assembly Committee on Vice Chair, Assembly Committee on

Banking and Finance Banking and Finance

State Capitol State Capitol

Sacramento, California 95814 Sacramento, California 95814

**Re: Oppose Unless Amended SB 1235** –Commercial financing: disclosures

Dear Assemblymembers Limón and Chen,

On behalf of CAMEO - California Association for Micro Enterprise Opportunity, I regrettably submit this letter of opposition unless amended for SB 1235. The bill mandates disclosures applying to all types of commercial financing from term loans to cash advances.

CAMEO has long been a proponent of responsible small business lending. We absolutely support truth in lending and accurate disclosures for commercial loan products. We are heartened that Senator Glazer has put forth a much-needed bill that intends to give small businesses more information about the variety of financing that is out there. However, we believe that the currently amended version of SB 1235 falls short of this goal, may even harm some businesses, and complicate the small business lending landscape.

Comparing different types of these loan products is a complicated issue that needs careful thought. It is more important that we do it **right** than do it **right now**. Legislating proper disclosure for loan products with different characteristics needs to be fully vetted.

The bill includes Annualized Cost of Capital (ACC), an untested measure of the cost of capital that needs closer analysis and consideration; APR is the form of all-in rate that people are familiar with, and has been vetted over many decades. ACC looks and feels like an APR, but produces a number that is dramatically lower than APR. As a result, the bill would make merchant cash advances, which have been called “payday loans for businesses,” look less expensive than the credit cards, bank loans, or loans from community members that a small business owner may be considering. Also, if ACC were removed from the bill so that cost were only disclosed as Total Dollar Cost, small businesses also would be misdirected towards high-cost, short-term financing.

Further, many of our members are community-based lenders and will continue to use APRs and thus will be required to explain APR and ACC to their clients and why they are different, further complicating small business lending.

CAMEO opposes SB 1235 unless ACC is struck from the bill and replaced with a metric that provides a comparison with APR that allows a small business to properly assess their financing options or if the calculation of ACC was improved so that it enables an accurate comparison with interest rates and APRs as is industry standard. We also would recommend an enforcement mechanism to be included in the bill, else successful resolutions of violations would be cost prohibitive for most small businesses to litigate in court.

CAMEO is California’s statewide network made up of over 220 organizations, agencies, and individuals dedicated to furthering microbusiness development in California – 30 of which are CDFIs. Annually, CAMEO members serve about 21,000 very small businesses with training, business and credit assistance and loans. These firms – largely start-ups with less than five employees – support or create 37,000 new jobs in California and generate a total of $1.3 billion in economic activity.

Thank you again for your consideration. If you have any questions regarding these requests, please feel free to contact Heidi Pickman, 415.992.4480 or at hpickman@microbiz.org.

Sincerely,

Carolina Martinez  
CEO

cc: Senator Steve Glazer