



## BankThink California Gov. Brown should sign new bill to protect small businesses

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Published September 25 2018, 10:05am EDT

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The California legislature recently passed one of the most important financial protection bills in a decade. The bipartisan bill, [SB 1235](#), would be the first law in the country to respond to the rise of irresponsible small-business lending by creating consumer-style disclosure standards for lenders.

It's hard to imagine why anyone wouldn't support a measure meant to make sure entrepreneurs are fully aware of the financing terms they are offered before they sign on the dotted line, and yet some opponents of the bill claim it would lead to confusion and be bad for honest lenders.

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First, let's be clear about what this legislation does: It would give the California Department of Business Oversight the flexibility to set disclosure standards that give small-business owners the transparency they deserve, without impinging on any responsible business practices.

A [study of California small business](#) by Opportunity Fund illustrates the need for these protections. It found some California small businesses paying rates of 94%, on average, and as high as 350% without those rates ever being disclosed. Perhaps even more troubling, the average payment was about double what the small business could afford. You can imagine the effect this financial stress has on these businesses, their ability to create jobs and California's economy.

[Federal Reserve research](#) has confirmed what should be common sense: If financing companies do not transparently disclose the annualized rates they charge, small businesses are unable to make informed decisions about the cost of their financing. The small businesses participating in the research were unable to accurately compare the costs and features of online financing products. The Bipartisan Policy Center, also [published a report](#) recommending small-business disclosure rules to "ensure that small-business borrowers receive basic information about loan terms and conditions when obtaining funds from non-bank lenders, whether they are offering traditional loans or providing cash advances based upon receivables."

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Some opponents of the bill, however, evidently disagree with these widely accepted recommendations. In [a recent opinion piece](#) published by American Banker, the Commercial Finance Association claimed annualized rates can't be calculated for revolving credit. If you have seen a credit card or home equity line of credit disclosure, you

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August 30, 2018

nonbanks as well.

Opponents raised a second boogeyman, arguing that transparently disclosing rates will create legal liability that will force them to withdraw from the market. Yet SB 1235 specifies that the annualized rate for certain products will be disclosed as an "estimate," not an exact promise for the

financing providers to be held to. If that were not enough, the bill requires the Department of Business Oversight to develop specific guidance on how the required estimates should be made, based on input from all stakeholders through the rulemaking process. Moreover, [California law](#) already provides a [safe harbor](#) from this type of liability to companies for doing things they are required to do by law, such as making a required disclosure.

At the end of the day, financing companies opposed to this bill may simply be worried that if small businesses see the estimated rates they will be charged, they could think twice about taking the financing or seek a less expensive option. Small businesses should have the information they need to make informed decisions for themselves, and Gov. Brown should give them the chance by signing SB 1235.

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