SB 2234 FI Committee Hearing Testimony – Jane Doyle

Good afternoon Chair Feigenholtz, Vice Chair Ellman, Spokesperson Plummer, and Senators. I'm Jane Doyle, the Senior Regulatory Policy Associate at Woodstock Institute. Woodstock works to advance economic justice and racial equity within financial systems through research and advocacy at the local, state, and national levels. We are part of an industry/nonprofit coalition in support of this bill, that includes for-profit lenders, small business groups, chambers of commerce, nonprofit community development financial institutions, and civil rights groups. When the bill was heard in March, 55 individual organizations, businesses, and people submitted witness slips in support.

Small businesses are essential for creating self-sustaining and prosperous communities. They create jobs, revitalize neighborhoods, and fuel local economics across our state – in rural areas, urban areas, and everywhere in between. As you heard at the last committee hearing a few weeks ago, the goal of this bill is simple: support small businesses in Illinois by ensuring they get clear information on the cost of a loan and can then compare financing options to find the one that best suits their needs, business model, and budget. Ultimately, this bill is about transparency.

The current nonbank loan marketplace can be confusing to navigate, as different products express their cost using different metrics. Some of those pricing metrics can be misleading and can make a loan appear affordable, when in reality it has a triple digit APR that would rival payday loans in Illinois before the PLPA. While the PLPA has provided great benefit to IL consumers, I want to be clear – this bill is not like the PLPA's rate cap. We're not limiting what lenders can charge – just requiring that they disclose it transparently as an APR.

Preliminary analysis from the Responsible Business Lending Coalition projects that this bill would save Illinois small businesses an estimated $176 million to $835 million dollars a year in unnecessary interest and fees, by empowering business owners to make price comparisons and sometimes choose a lower-cost financing option if they want to. Black-owned businesses would get an estimated $24 million to $112 million of that savings. Between $22 million to $104 million dollars of that would go to Hispanic-owned businesses.

At the last committee hearing, we heard support for setting transparent price disclosure standards with APR, but also that there were concerns about the compliance burden. We've made changes to the bill in a few ways to address those concerns and compromise with opposition.

Senate Amendment 5 significantly lightens that burden by eliminating the licensing requirement, in favor of a much lighter registration framework. This eliminates elements opponents had expressed concerns about, including regular examinations, providing personal financial info for board members to the regulator, and annual reporting. This lighter approach maintains the ability of IDFPR to investigate potential bad actors or violations of the law, and gives IDFPR the power to refuse a registration and stop a bad actor from operating in Illinois.

The bill also creates a database to help us understand what's happening in the market, similar to what Illinois already has for consumer loans. SA5 lightens the compliance burden by completely eliminating the database reporting for the vast majority of the market, and only requiring reporting from sales-based financing products such as merchant cash advances and similar loans, which Federal Reserve research has described as, quote, "potentially higher-cost and less-transparent credit products."

In response to concerns raised by committee members last time, an exemption was added to address captive financing transactions offered by manufacturers like CAT and John Deere.

Finally, we are adding safe harbor language to underscore that financing companies don't face liability if they disclose an estimated APR in accordance with the law but the estimate does not turn out to be the actual APR.

Thank you for allowing me to testify today, and I am available to answer any questions.