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April 21, 2023

Senator Dave Min

1020 N Street, Room 6710

Sacramento, CA 95814

**RE: Senate Bill 666 (Min) – CO-SPONSORS**

**As Amended on 4/10/2023**

Dear Senator Limón:

The Consumer Federation of California (CFC), California Association for Micro Enterprise Opportunity (CAMEO), and the undersigned are proud to support SB 666 by Senator Min (D – Irvine). This bill will protect small business owners by addressing arbitrary financing fees by prohibiting certain junk fees that are imposed on small businesses by unregulated lending or finance companies.

SB 666 is part of a multi-bill package sponsored by CFC and a wide range of consumer and small business organizations to crack down on so-called “junk fees.” The pernicious nature of these fees and the negative impact they have on consumers and their pocketbooks and small businesses’ bottom lines is widely recognized and driving important public policy changes. Approximately 85% of Americans have direct experience with hidden or junk fees. These fees can be predatory and unnecessary. That’s why President Biden and some leading Republicans agree that reigning in junk fees is important.

With the decline of traditional small business bank lending and lack of scale from most microlenders and CDFIs, online lending is filling the access to capital gap with little to no oversight. It’s never been faster or easier for small businesses to fill out an application and receive the money, often with no regard on whether or not they can pay it back. With a couple of clicks, borrowers can submit an application for financing and receive an answer within days, if not minutes. Because they lack traditional banking relationships, African American and Hispanic-owned employer firms apply to online lenders at higher rates than White-owned firms.[[1]](#footnote-1)

While not all online lending is predatory, if a deal sounds too good to be true, it often is. It is not uncommon to find small business financing with interest rates of higher than 50 percent — some even reaching 350 percent — without these rates being disclosed to the borrower. Often, high fees are wrapped up in these high APRs. Unregulated commercial lenders often charge large sums to small businesses as duplicate fees or fees that do not provide a clear, corresponding service.

Research done by the Woodstock Institute found that for many small business owners in Fresno, some of the fees on their loans totaled as much as 15 percent of the gross loan amount, with Automated Clearing House (ACH) debit payment setup fees of up to $395 and other random fees on top of typical origination fees.[[2]](#footnote-2) These negatively impact small business owners and adds to the pre-existing barriers of entry for people of color who are heavily discriminated against and receive fewer loans from traditional lenders, forcing them to rely on “more costly forms of credit, such as personal credit cards or high-interest online financing”.[[3]](#footnote-3)

SB 666 will protect small business owners by prohibiting small business lenders from charging fees to an origination fee without clear, corresponding service. Other fees prohibited by this measure are those imposed for the lender collecting payment via ACH, fees for statement or pay-off letters, and collateral monitoring of fees unless the transaction is delinquent for more than 90 days. Additionally, this bill will prohibit a lender from charging a small business a UCC lien filing or termination fee that is more than 150% of the cost to the lender.

California should lead the way and provide necessary protections for small business owners by ensuring that these fees do not pose unnecessary burdens to their bottom lines.

We respectfully ask for your support and aye vote on SB 666. Thank you for your consideration of this request.

Sincerely,

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Robert Herrell, Executive Director

Consumer Federation of California

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Heidi Pickman, VP, Engagement and External Relations

CAMEO - California Association for Micro Enterprise Opportunity

CC: Members and Staff, Senate Judiciary Committee

Senator Min

1. [Lipman, Barbara and Ann Marie Wiersch, Board of Governors of the Federal Reserve System, “Searching for Small Business Credit Online,” Consumer and Community Context, Nov 2019, Vol 1, No 2](https://www.federalreserve.gov/publications/2019-november-consumer-community-context.htm). [↑](#footnote-ref-1)
2. [Woodstock Insitute, “Patterns of Disparity: Small Business Lending in Fresno and Minneapolist-St. Paul Regions,” (November 2017).](https://woodstockinst.org/wp-content/uploads/2017/11/Patterns-of-Disparity-Small-Business-Lending-in-Fresno-and-Minneapolis-St.-Paul-Regions-1.pdf) https://woodstockinst.org/research/reports/patterns-of-disparity-small-business-lending-illinois/ [↑](#footnote-ref-2)
3. Nolan, Lauren & Adams, Brent. “Patterns of Disparity: Small Business Lending in Illinois”. *Woodstock Institute*, August 6, 2019. <https://woodstockinst.org/wp-content/uploads/2017/11/Patterns-of-Disparity-Small-Business-Lending-in-Fresno-and-Minneapolis-St.-Paul-Regions-1.pdf> [↑](#footnote-ref-3)